

Global Data Watch

- Industry readings, alt-data suggest growth bounce is underway
- With boomy IP sustained, bottleneck goods price pressures emerge
- European rebound tempered but not delayed by COVID-19
- Next week: US jobs bounce; EM Asia mfg. PMIs lifted by China

You're gonna need a wider canal

Divergences in the path of activity and the virus this quarter notwithstanding, we have maintained a view that the global economy will accelerate sharply during March/April and signal the start of a period of remarkably strong global growth. The latest news flow bolsters our confidence, as it suggests liftoff this month. Notable in this regard is the incoming news from global industry. Asian export readings show sustained buoyancy and available March business surveys have exceeded our already upbeat views. Notably, the DM manufacturing flash PMI rose 3.6pts in March to 59.6, its highest reading in over a decade. Most surprising was the leadership of the Euro area, which posted output and new orders readings well above 60, its best survey result in two decades.

The resiliency of industrial activity as we move through the current quarter contrasts with global weakness in consumption, pointing to the outsized contribution of business spending to growth. With financial conditions supportive, business confidence elevated, and inventories still lean, this upturn has room to run. The key to the anticipated growth bounce is this support, to be accompanied by a rebound in consumption as COVID-19 restrictions fade and new fiscal supports kick in. The latest readings from our alt-activity indicators suggest this bounce began this month. Our Google activity index (GAI) measuring mobility has moved up 6%-pts since mid-February (Figure 1). Following a quick rebound from a weather-depressed February, our [Chase consumer card spending data](#) are now taking a large step upward following the latest round of US fiscal stimulus checks. Early signs of the March bounce in US activity should come with an expected 650,000 rise in US employment next week.

We also expect inflation to move higher but assessing its path requires looking past the base effects from last year's price declines that will temporarily raise year-ago comparisons next quarter. The focus should be on the response of core inflation to the expected growth surge. There is clear evidence that the double-digit pace of annualized IP gains over the past six months is



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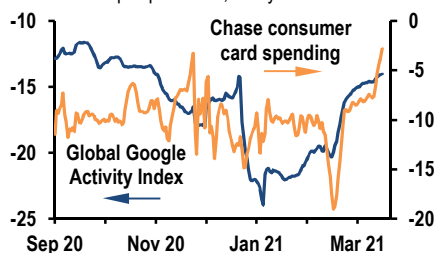
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Figure 1: JPM GAI and US card spending

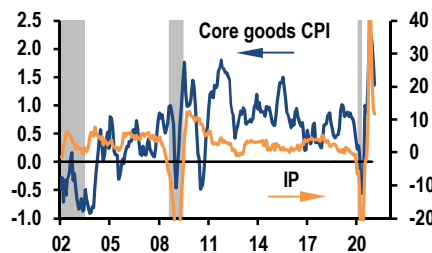
% relative to pre-pan. level; 7 day ma. both scales



Source: J.P. Morgan

Figure 2: Global IP and core goods CPI

% ch 6m, saar both scales



Source: J.P. Morgan

Bruce Kasman

(1-212) 834-5515
bruce.c.kasman@jpmorgan.com
JPMorgan Chase Bank NA

Joseph Lupton

(1-212) 834-5735
joseph.p.lupton@jpmorgan.com
JPMorgan Chase Bank NA

Michael S Hanson

(1-212) 622-8603
michael.s.hanson@jpmchase.com
JPMorgan Chase Bank NA

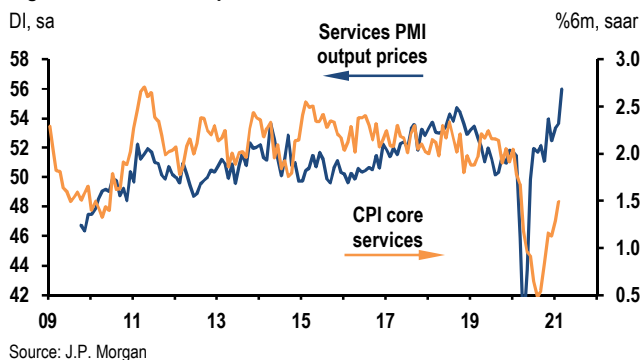
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generating upward pressure on goods prices (Figure 2). Recent news from surveys and import prices aligns with anecdotal evidence of supply constraints to suggest upward pressure is continuing to build along with concentrated bottleneck problems. Moreover, significant supply constraints in the semiconductor industry and the disruption associated with the ongoing Suez Canal blockage both should temporarily add further pressure on goods prices and weigh on growth.

It is common for goods price pressures to emerge without generating a broader rise in core inflation. The key issue ahead is whether the bounce in consumer services spending, which has yet to materialize, will reinforce elevated goods price inflation. Both our US and Western European economists downplay material “speed effects.” This view is based on the limited evidence of the importance of such effects over the past two decades and the typical inertia in services price inflation (see [here](#) and [here](#)). But inertia did not preclude a notable decline in services price inflation during last year’s unprecedented collapse in spending (Figure 3). There also is no recent precedent for the strength and synchronization of the service sector growth anticipated this year. The message from this week’s DM flash service-sector output price reading, which rose well above its 2010-11 peak, is that signs of building pressure may be starting to emerge.

Figure 3: DM services prices



Highlighting two risks

There are two clear risks around this boomy forecast for global GDP to expand at a 7.6%ar over the coming two quarters. On the downside stand virus variants spreading amid slow vaccination rollouts, which could short-circuit the consumer recovery. Without ignoring the concerns for a few specific EM economies, we are encouraged by the effectiveness of vaccines where rollouts are advanced as well as indications that the pace of vaccination should pick up in Europe in the coming weeks. To the upside there is a risk that we underestimate the DM consumer, where European pent-up demand

and US income supports combine with the reservoir of untapped excess saving built up over the past year.

EM Asian exports continue to boom

Despite signs that China’s domestic demand growth is cooling, EM Asia exports continue to boom. Taiwan’s export orders jumped in February, pushing the quarterly pace of increase to an impressive 101% annualized rate. The March flash exports reading in Korea also was impressive and pointed to quarterly growth at an above-40% annualized rate. Tech continues to be the high flyer—Taiwan’s tech orders surged at a remarkable 137% ar in the quarter ending in February—but the underlying message from the region is that there is broad-based demand for capital equipment and technology products.

Next week’s March manufacturing PMI reports should move higher across the region, reinforcing the upbeat signal on global growth. We expect China to rebound from disappointing February readings, with the NBS and Caixin/Markit manufacturing PMIs each rising by roughly 0.5pt. Elsewhere we expect readings to stabilize at elevated levels. While we expect the strong recovery trajectory of DM economies to support demand for EM Asia exports for the rest of this year, we continue to look for moderation in Chinese demand and a tempering of WFH-related tech spending to slow the pace of regional exports into midyear.

EU won’t miss the coming growth surge

The consumer-led bounce in US growth we expect is levered to unprecedented fiscal stimulus and mass vaccinations ramping up, both of which are already underway. By contrast, Europe’s projected rebound is linked largely to the unlocking of pent-up demand as a pandemic drag that pushed the region into a double-dip recession fades from the scene. However, the pandemic has yet to relax its grip, forcing several countries to recently extend their lockdowns yet again. At the same time, production and access to vaccines in the EU has been frustratingly slow. As a result, we have lowered our sights on the speed of the regional recovery in March/April. That said, we still anticipate a dramatic acceleration in GDP, moving from contraction this quarter to an anticipated 7.5%ar gain in 2Q20. While it is too early to accurately gauge regional progress this month, the March rise in mobility is encouraging. Moreover, both the Euro area flash PMIs and German IFO surged, bolstering our confidence that this growth upturn is poised to take hold.

Supply pressures raise Japan inflation

Inflation is edging higher somewhat faster than expected in Japan, leading us to raise our forecast profile for coming quar-

ters. This week the Tokyo CPI printed a firmer-than-expected 0.3% oya rise and we now look for underlying inflation, excluding one-off policy factors, to remain in positive territory. Much of the upward pressure is concentrated in the manufacturing sector. Global semiconductor shortages are playing a role but so too are shortages of other intermediate goods, including chemicals. Adding to the supply constraints, a fire broke out last week at one of the largest domestic chipmakers, leading to an extended disruption of production. While we still see much of this pressure as transitory, we now expect Japan's CPI to rise 0.7% (4Q/4Q) this year.

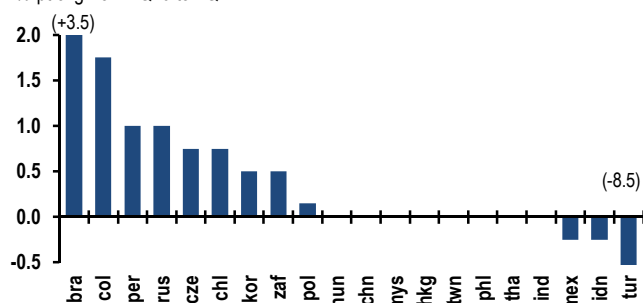
The push and pull on EM central banking

Whereas all central banks set policy based on their assessment of macroeconomic outcomes, reaction functions often also incorporate risks related to financial market and political developments. The major DM central banks have the luxury of largely focusing on their assessment of progress toward their dual mandate of price stability and full employment. But EM central banks depend on capital flows and suffer from more limited credibility, meaning that global financial conditions and the actions of their domestic political counterparts often are major factors in monetary policy actions.

For most EM central banks, the combination of low-for-long DM central bank guidance and the projection of persistent slack will allow them to maintain modest policy adjustments through a period of strong global growth (Figure 4). But the 100bp rise in US 10-year yields over the past six months will weigh on capital flows for current account deficit countries. Where these pressures combine with weak fiscal anchors and limited central bank credibility, [concerns about financial stability and debt dynamics](#) will become a key central bank consideration.

Figure 4: Forecasted policy rate changes, EM

%-pt chg from 4Q20 to 4Q22



Source: J.P. Morgan

While the set of countries in this group is relatively small, they continue to be at the center of an ongoing reassessment of policy paths:

- **Personnel shakeup at the CBRT.** The dismissal of Governor Agbal last weekend was as a big surprise. While it is reassuring to hear the incoming governor Kavcioglu emphasize a commitment to lower inflation as well as to transparency and predictability of policy, uncertainty about how these will be delivered has heightened market anxieties. These worries are amplified by large gross external financing needs in Turkey. More orthodox and transparent CBRT policies since last November promoted inflows into local assets. The latest personnel move risks a prolonged pause or even reversal of these flows that could force a repricing of the currency and country risk premium.
- **SARB hikes possible by 4Q21.** The SARB remained on hold this week as expected, and we see limited risks of a hike in coming months. For now, downside risks related to COVID-19, a sizable fiscal drag, and a sluggish FAI recovery portend patience. However, should the pandemic drags fade more quickly or should FX pressures build (USD/ZAR breaching 15.75), a hike as soon as September could become more likely. Short of that, we do not anticipate a hike until March 2022.
- **Banxico holds after prior easing.** In Latam, rising US yields are challenging the ability of monetary policy to remain accommodative in countries like Brazil and Colombia, and has halted the easing cycle in Mexico in its tracks. Following a unanimous cut at the prior meeting, Banxico's unanimous pause at 4% this week was conditioned both by stubborn inflation and recognition of "the importance of fostering orderly adjustments in financial conditions."
- **Fiscal risks central to COPOM.** Following last week's more-hawkish-than-expected 75bp hike, the COPOM tempered building market expectations for an even stronger pace of hiking ahead, sticking to a follow-up 75bp hike that it had previously signaled and aiming for its terminal rate to remain below neutral after removing all the "extraordinary stimulus." However, fiscal risks and the potential for surprises to short-term inflation continue to suggest a terminal SELIC rate of 5.5% this year, with a 75bp increase in the next meeting followed by four installments of 50bp hikes.

Editor: Gabriel de Kock (1-212) 622-6718 gabriel.s.dekock@jpmorgan.com

Global economic outlook summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2020	2021	2022	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	2Q20	4Q20	2Q21	4Q21
United States	-3.5	6.3↑	4.0	33.4	4.3↑	<u>5.0</u>	9.5	8.3	3.0	0.4	1.2	3.6	2.9↑
Canada	-5.4	6.2	4.1	40.6	9.6	<u>5.0</u>	4.0	7.5	5.5	0.0	0.8	2.8	2.3
Latin America	-6.5↑	5.0↑	3.1	51.9↑	17.0↓	-2.3↑	2.1↓	4.1↓	3.6↓	6.5	6.7	10.2	9.2
Argentina	-9.9↑	5.8	1.7	63.5↑	19.4↓	<u>0.0</u>	1.0	2.0	1.0	43.8	36.2↓	53.5	55.0
Brazil	-4.1	3.2	2.4	34.4	13.3	<u>-5.8</u>	1.6	4.0	3.0	2.1	4.3	7.7	5.4
Chile	-5.8	5.9	3.2	22.1	30.1	<u>4.0↑</u>	0.0↓	6.0↑	3.0↓	2.9	2.9	4.0	3.5
Colombia	-6.8	7.5	3.6	43.1	26.5	<u>3.5</u>	2.6	4.4	5.0	2.9	1.6	1.8	2.7
Ecuador	-7.2	2.8	1.9	19.3	<u>8.0</u>	3.2	2.5	2.5	2.5	0.6	-1.1	-1.6	0.3
Mexico	-8.2	5.8↑	4.1	59.6	13.7	1.0↑	4.0↓	4.5↓	3.8↓	2.8	3.5	4.8↑	3.7↑
Peru	-11.1	9.9	6.1	195.3	38.1	<u>-16.0</u>	-1.0	5.0	12.0	1.7	2.2	2.0	1.9
Uruguay	-5.9↓	2.8	3.0	36.1↑	6.8↓	<u>0.0</u>	0.5	1.5	2.7	10.8	9.6↓	6.9	7.1
Asia/Pacific	-1.2	7.8	4.7	24.9	13.8	<u>4.5</u>	5.4	5.5	5.0	2.0	0.7	1.7↑	2.3
Japan	-4.9	4.2	2.4	22.8	11.7	<u>-1.0</u>	6.0	5.0	3.0	0.1	-0.8	0.1↑	0.7↑
Australia	-2.4	4.2	2.8	14.3	13.1	<u>2.3</u>	4.2	3.7	2.4	-0.3	0.9	3.4	2.0
New Zealand	-3.0	3.5	3.8	68.1	-3.8	<u>-2.2</u>	3.3	3.3	4.6	1.5	1.4	1.7	1.5
EM Asia	-0.3	8.9	5.3	25.6	14.5	<u>5.9</u>	5.4	5.8	5.6	2.6	1.0	2.0	2.7
China	2.3	9.5	5.6	7.1	14.9	<u>6.0</u>	5.0	5.5	5.7	2.7	0.1	1.4	2.7
India	-8.0	13.2	4.3	118.9	24.7	<u>11.0</u>	6.5	6.0	5.0	6.5	6.4	4.5↑	4.2↑
Ex China/India	-2.8	5.1	5.1	23.0	7.7	<u>2.9</u>	5.7	6.4	5.8	0.1	0.5	2.1	1.9
Hong Kong	-6.1	5.2	3.6	11.2	0.8	<u>3.9</u>	8.0	7.4	3.8	1.3	-0.3	1.1	2.6
Indonesia	-2.1	5.0	4.8	14.1	10.7	<u>4.0</u>	6.0	5.0	5.0	2.3	1.6	1.6	2.1
Korea	-1.0	4.1	4.4	8.8	5.0	<u>3.0</u>	4.0	9.0	5.0	-0.1	0.4	2.1	2.2
Malaysia	-5.6	6.8	4.9	95.3	-1.0	<u>2.5</u>	9.0	5.0	5.0	-2.6	-1.5	2.8	1.9
Philippines	-9.5	7.0	5.7	36.1	24.2	<u>3.6</u>	5.3	5.3	6.6	2.3	3.1	4.7	3.6
Singapore	-5.4	5.7	8.0	41.0	15.9	<u>1.0</u>	5.0	3.0	5.0	-1.2	-0.1	1.4	1.1
Taiwan	3.1	6.2	3.6	18.5	5.8	<u>4.0</u>	6.2	6.0	3.5	-1.0	0.0	2.0	1.8
Thailand	-6.1	4.3	7.8	27.3	5.4	<u>0.0</u>	6.2	5.0	14.0	-2.7	-0.4	1.8	0.0
Western Europe	-7.1	5.4	5.1	61.7	-1.2	<u>-2.4</u>	9.7↓	13.4↑	5.6	0.3	-0.1	1.8	2.3
Euro area	-6.8	5.3	4.9	59.9	-2.6	<u>-1.0</u>	7.5	12.5	5.5	0.2	-0.3	1.8	2.3
Germany	-5.3	4.1	4.9	38.6	1.4	<u>-4.0</u>	7.5	14.5	4.0	0.7	-0.6	2.3	3.7
France	-8.2	7.0	4.5	96.9	-5.7	<u>4.0</u>	4.0	9.5	5.5	0.3	0.1	1.8	1.9
Italy	-8.9	5.9	5.7	80.3	-7.5	<u>-1.5</u>	10.0	14.0	6.0	-0.2	-0.4	0.8	1.5
Spain	-10.8↑	6.7↑	7.4	87.7↑	0.1↓	<u>-2.0</u>	10.0	15.0	11.0	-0.6	-0.8	1.2	1.9
Norway	-3.1	3.8↓	3.7↑	21.6	7.8	<u>-2.0</u>	3.0↓	9.5↑	4.0	1.1	1.3	3.4	3.5
Sweden	-3.0	3.1↓	3.8↑	28.3	-1.0	<u>-0.5</u>	5.5↓	8.5↑	4.0	0.1	0.6	1.6	1.0
United Kingdom	-9.9	6.8	6.3	81.9	4.0	<u>-9.4</u>	22.1	19.3	6.7	0.7	0.6	1.5↓	2.2↓
EMEA EM	-2.7	4.4	4.2	41.6	<u>4.2</u>	<u>0.1</u>	5.9	5.0	4.4	4.1	4.9	6.1	5.3
Czech Republic	-5.6	4.6	5.2	31.6	2.4	<u>0.0</u>	8.0	8.0	6.5	3.1	2.6	2.6	2.6
Hungary	-5.0	5.2	6.0	51.7	5.6	<u>-2.5</u>	9.5	8.5	8.0	2.5	2.8	4.6	4.3
Israel	-2.4	6.6	5.5	41.7	6.4	<u>2.8</u>	8.7	5.7	5.3	-1.1	-0.7	1.1	1.2
Poland	-2.7	4.2	6.1	35.5	-2.8	<u>-0.9</u>	9.8	8.7	8.1	3.2	2.8	3.4	3.7
Romania	-3.9	6.0	6.5	24.1	20.7	<u>-2.5</u>	6.1	11.2	7.0	2.5	2.1	2.9	3.9
Russia	-3.1	3.4	2.9	24.0	<u>2.3</u>	<u>2.0</u>	6.0	4.0	3.5	3.1	4.5	5.3	4.6
South Africa	-7.1	4.3	2.4	67.3	6.3	<u>1.8</u>	2.8	2.2	2.5	2.4	3.2	4.5↓	4.5
Turkey	1.8	4.8	4.1	80.7	6.9	<u>-3.9</u>	0.8	1.3	1.6	11.7	13.5	15.7	12.5
Global	-3.6	6.5	4.4	38.1	7.5↑	2.5	7.3	7.9	4.5	1.5	1.3	3.0	3.0
Developed markets	-5.0	5.7↑	4.2	42.4	3.5↑	<u>1.5</u>	8.8↓	9.6	4.0	0.3	0.5	2.5	2.4↑
Emerging markets	-1.5	7.7	4.8	31.7	<u>13.4</u>	3.9↑	4.9↓	5.4	5.2	3.4	2.4	3.8↑	4.0
Emerging ex China	-4.6	6.2	4.2	51.6↑	<u>12.1</u>	2.2↑	4.9↓	5.3↓	4.7	3.9	4.3	5.7↑	5.1
Global — PPP weighted	-3.4	7.0	4.5	39.4	<u>9.0</u>	3.3	7.0	7.4↑	4.6	2.0	1.6	3.0↑	3.0↑

Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

G-3 economic outlook detail

				2020			2021				2022
	2020	2021	2022	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
United States											
Real GDP	-3.5	6.3	4.0	-31.4	33.4	4.3	5.0	9.5	8.3	3.0	3.5
Private consumption	-3.9	8.2	4.2	-33.2	41.0	2.3	9.3	11.5	9.5	5.5	2.5
Equipment investment	-5.0	14.2	6.1	-35.9	68.2	25.4	8.8	10.0	9.0	9.0	6.0
Non-residential construction	-11.0	-2.9	6.4	-33.6	-17.4	-6.2	8.0	3.0	5.0	6.0	8.0
Intellectual property products	1.7	8.1	8.5	-11.4	8.4	10.5	10.0	9.0	9.0	9.0	9.0
Residential construction	6.1	17.2	6.2	-35.6	63.0	36.6	11.0	14.0	12.0	7.0	5.0
Inventory change (\$ bn saar)	-77.4	39.5	22.5	-287.0	-3.7	62.1	-32.8	35.0	113.1	42.6	44.4
Government spending	1.1	-0.3	4.6	2.5	-4.8	-0.8	-0.2	0.4	0.4	3.4	6.9
Exports of goods and services	-12.9	3.7	4.8	-64.4	59.6	22.3	-2.6	4.2	4.4	4.3	5.5
Imports of goods and services	-9.3	14.2	8.1	-54.1	93.1	29.8	3.5	13.0	13.0	11.0	7.5
Domestic final sales contribution	-2.6	7.1	4.7	-28.5	30.1	4.5	7.9	9.8	8.4	5.9	4.2
Inventories contribution	-0.7	0.6	-0.1	-3.5	6.6	1.4	-2.0	1.4	1.6	-1.4	0.0
Net trade contribution	-0.2	-1.4	-0.6	0.6	-3.2	-1.5	-0.9	-1.7	-1.7	-1.4	-0.7
Consumer prices (%oya)	1.3	2.8	2.2	0.4	1.3	1.2	1.9	3.6	2.9	2.9	2.4
Excluding food and energy (%oya)	1.7	1.8	2.1	1.3	1.7	1.6	1.4	2.3	1.7	1.8	2.1
Core PCE deflator (%oya)	1.4	1.8	1.8	1.0	1.4	1.4	1.5	2.2	1.8	1.9	1.8
Federal budget balance (% of GDP, FY)	-15.0	-16.7	-10.1								
Personal saving rate (%)	16.1	13.0	6.9	26.0	15.7	13.0	20.2	13.8	10.5	7.6	6.8
Unemployment rate (%)	8.1	5.3	3.8	13.1	8.8	6.8	6.2	5.5	4.8	4.5	4.1
Industrial production, manufacturing	-6.7	7.1	2.8	-46.5	56.3	11.2	4.3	8.0	5.8	2.8	2.0
Euro area											
Real GDP	-6.8	5.3	4.9	-38.8	59.9	-2.6	-1.0	7.5	12.5	5.5	4.0
Private consumption	-8.1	4.3	4.7	-41.6	69.5	-11.5	1.0	8.0	12.0	5.0	3.5
Capital investment	-8.5	7.0	6.3	-50.5	68.3	6.4	2.0	8.0	10.0	10.0	5.0
Government consumption	1.1	4.0	2.1	-8.4	19.9	1.7	3.0	4.0	2.0	2.0	2.0
Exports of goods and services	-9.8	9.7	4.6	-56.6	85.4	14.9	2.0	14.0	11.0	3.0	3.0
Imports of goods and services	-9.3	8.1	4.9	-55.1	56.1	17.4	2.0	15.0	10.0	3.0	3.5
Domestic final sales contribution	-6.0	4.7	4.3	-35.5	55.3	-4.8	1.6	6.8	9.1	5.2	3.4
Inventories contribution	-0.2	-0.5	0.6	0.0	-5.8	2.5	-2.7	0.5	2.5	0.2	0.7
Net trade contribution	-0.6	1.0	0.1	-3.4	10.4	-0.3	0.1	0.2	0.9	0.1	-0.1
Consumer prices (HICP, %oya)	0.3	1.8	1.2	0.2	0.0	-0.3	1.2	1.8	1.9	2.3	1.0
ex food, alcohol and energy	0.7	1.2	1.1	0.9	0.6	0.2	1.3	0.9	0.9	1.5	0.6
General govt. budget balance (% of GDP, FY)	-9.2	-6.5	-3.7								
Unemployment rate (%)	8.0	8.4	8.3	7.6	8.6	8.3	8.2	8.4	8.4	8.4	8.4
Industrial production	-8.4	8.0	4.0	-49.7	82.9	16.6	0.0	5.0	5.0	5.0	4.0
Japan											
Real GDP	-4.9	4.2	2.4	-29.3	22.8	11.7	-1.0	6.0	5.0	3.0	2.0
Private consumption	-6.0	3.1	2.9	-29.5	22.0	9.0	-4.0	7.0	6.0	4.0	2.5
Business investment	-6.0	3.1	5.2	-21.5	-9.2	18.2	3.0	2.0	9.0	8.0	5.0
Residential construction	-7.0	-1.7	1.0	2.0	-20.9	0.2	3.0	1.0	1.0	1.0	1.0
Public investment	3.7	3.2	0.8	9.3	3.8	6.1	1.0	2.0	2.0	2.0	1.0
Government consumption	2.7	3.4	-0.4	1.0	12.1	7.6	2.0	0.0	0.0	0.0	0.0
Exports of goods and services	-12.4	13.9	7.8	-52.9	33.2	52.4	10.0	10.0	15.0	10.0	8.0
Imports of goods and services	-6.8	6.4	9.4	5.1	-29.0	17.0	12.0	10.0	15.0	15.0	10.0
Domestic final sales contribution	-3.8	3.0	2.4	-17.9	12.5	9.7	-1.1	4.2	4.7	3.5	2.2
Inventories contribution	-0.1	-0.1	0.3	1.3	-1.4	-2.6	0.4	1.8	0.2	0.3	0.1
Net trade contribution	-1.1	1.2	-0.3	-12.6	11.8	4.7	-0.3	0.0	0.1	-0.8	-0.3
Consumer prices (%oya)	0.0	0.2	0.5	0.1	0.2	-0.8	-0.3	0.1	0.3	0.7	0.4
ex food and energy	-0.1	0.1	0.1	0.0	-0.1	-0.5	0.2	-0.3	0.0	0.3	0.2
General govt. net lending (% of GDP, CY)	-11.6	-10.8	-6.3								
Unemployment rate (%)	2.8	3.0	2.8	2.8	3.0	3.0	3.1	3.0	3.0	2.9	2.9
Industrial production	-10.3	11.5	3.1	-52.3	39.9	27.8	15.5	11.0	10.0	2.0	2.0
Memo: Global industrial production	-5.4	9.0	3.8	-25.5	69.1	13.3	3.6	7.2	5.9	3.9	0.0
%oya				-13.9	-3.6	-0.2	4.2	19.3	7.3	5.0	0.0

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site. Source: J.P. Morgan

Global Central Bank Watch

		Official rate	Current rate (%pa)	4-qrtr change (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
				Last	Next				Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
Global			1.22	-25	5				1.22	1.26	1.28	1.27	1.27
excluding US			1.59	21	7				1.59	1.65	1.68	1.66	1.66
Developed			-0.02	-18	0				-0.02	-0.02	-0.02	-0.02	-0.02
Emerging			3.13	-40	12				3.13	3.24	3.29	3.25	3.25
Latin America			2.76	-158	140				2.76	3.34	3.83	4.13	4.16
EMEA EM			5.36	64	-53				5.36	5.55	5.47	4.98	4.83
EM Asia			2.75	-40	2				2.75	2.75	2.75	2.75	2.77
The Americas			0.61	-26	20				0.61	0.70	0.77	0.81	0.82
United States	Fed funds	0.25	0	0	15 Mar 20 (-100bp)	28 Apr 21	On hold		0.25	0.25	0.25	0.25	0.25
Canada	O/N rate	0.25	-50	0	27 Mar 20 (-50bp)	21 Apr 21	On hold		0.25	0.25	0.25	0.25	0.25
Brazil	SELIC O/N	2.75	-100	275	17 Mar 21 (+75bp)	5 May 21	May 21 (+75bp)		2.75	4.00	5.00	5.50	5.50
Mexico	Repo rate	4.00	-254	0	11 Feb 21 (-25bp)	13 May 21	Feb 23 (+25bp)		4.00	4.00	4.00	4.00	4.00
Chile	Disc rate	0.50	-50	50	31 Mar 20 (-50bp)	<u>30 Mar 21</u>	4Q 21 (+25bp)		0.50	0.50	0.50	0.75	1.00
Colombia	Repo rate	1.75	-250	75	25 Sep 20 (-25bp)	30 Apr 21	3Q 21 (+25bp)		1.75	1.75	2.00	2.50	2.50
Peru	Reference	0.25	-100	25	9 Apr 20 (-100bp)	8 Apr 21	1Q 22 (+25bp)		0.25	0.25	0.25	0.25	0.50
Europe/Africa			0.81	-11	-10				0.81	0.85	0.84	0.74	0.71
Euro area	Depo rate	-0.50	0	0	12 Sep 19 (-10bp)	22 Apr 21	On hold		-0.50	-0.50	-0.50	-0.50	-0.50
United Kingdom	Bank rate	0.10	0	0	19 Mar 20 (-15bp)	6 May 21	On hold		0.10	0.10	0.10	0.10	0.10
Norway	Dep rate	0.00	-25	50	7 May 20 (-25bp)	6 May 21	3Q21 (+25bp)		0.00	0.00	0.25	0.25	0.50
Sweden	Repo rate	0.00	0	0	19 Dec 19 (+25bp)	27 Apr 21	On hold		0.00	0.00	0.00	0.00	0.00
Czech Republic	2-wk repo	0.25	-75	25	7 May 20 (-75bp)	6 May 21	4Q 21 (+25bp)		0.25	0.25	0.25	0.50	0.50
Hungary	Base rate	0.60	-30	0	21 Jul 20 (-15bp)	27 Apr 21	On hold		0.60	0.60	0.60	0.60	0.60
Israel	Base rate	0.10	-15	0	6 Apr 20 (-15bp)	19 Apr 21	On hold		0.10	0.10	0.10	0.10	0.10
Poland	7-day interv	0.10	-90	0	28 May 20 (-40bp)	7 Apr 21	4Q 22 (+15bp)		0.10	0.10	0.10	0.10	0.10
Romania	Base rate	1.25	-75	0	15 Jan 21 (-25bp)	-	2Q 22 (+25bp)		1.25	1.25	1.25	1.25	1.25
Russia	Key pol rate	4.50	-150	75	19 Mar 21 (+25bp)	23 Apr 21	Apr 21 (+25bp)		4.50	5.00	5.25	5.25	5.25
South Africa	Repo rate	3.50	-175	25	23 Jul 20 (-25bp)	20 May 21	Jan 22 (+25bp)		3.50	3.50	3.50	3.50	3.75
Turkey	1-wk repo	19.00	925	-500	18 Mar 21 (+200bp)	15 Apr 21	Sep 21 (-100bp)		19.00	19.00	18.00	15.00	14.00
Asia/Pacific			2.10	-33	2				2.10	2.10	2.10	2.09	2.11
Australia	Cash rate	0.10	-15	0	4 Nov 20 (-15bp)	6 Apr 21	On hold		0.10	0.10	0.10	0.10	0.10
New Zealand	Cash rate	0.25	0	-25	15 Mar 20 (-75bp)	14 Apr 21	Nov 21 (-25bp)		0.25	0.25	0.25	0.00	0.00
Japan	Pol rate IOER ¹	-0.10	-8	0	28 Jan 16 (-20bp)	26 Apr 21	On hold		-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw	0.50	0	0	3 Mar 20 (-50bp)	-	On hold		0.50	0.50	0.50	0.50	0.50
China	1-yr MLF	2.95	-20	0	15 Apr 20 (-20bp)	-	On hold		2.95	2.95	2.95	2.95	2.95
Korea	Base rate	0.50	-25	25	28 May 20 (-25bp)	15 Apr 21	1Q 22 (+25bp)		0.50	0.50	0.50	0.50	0.75
Indonesia	BI RRR	3.50	-125	0	18 Feb 21 (-25bp)	20 Apr 21	On hold		3.50	3.50	3.50	3.50	3.50
India	Repo rate	4.00	-115	0	22 May 20 (-40bp)	7 Apr 21	On hold		4.00	4.00	4.00	4.00	4.00
Malaysia	O/N rate	1.75	-75	0	7 Jul 20 (-25bp)	6 May 21	On hold		1.75	1.75	1.75	1.75	1.75
Philippines	Rev repo	2.00	-125	0	19 Nov (-25bp)	13 May 21	On hold		2.00	2.00	2.00	2.00	2.00
Thailand	1-day repo	0.50	-25	0	20 May 20 (-25bp)	5 May 21	On hold		0.50	0.50	0.50	0.50	0.50
Taiwan	Official disc.	1.125	0	13	19 Mar 20 (-25bp)	17 Jun 21	1Q 22 (+13bp)		1.13	1.13	1.13	1.13	1.25

Source: J.P. Morgan. ¹ BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance. Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

Nowcast global GDP 1Q: Speeding up

Following a string of upward revisions to 1Q21 GDP growth on the back of stronger-than-expected data, most recently our forecast has stabilized around 2.5% ar (Figure 1). While we are still collecting activity data for February, we turn to early March surveys for signs of building momentum for an upturn in growth. Our forecast assumes global GDP growth swings to a 7.5% ar in 2Q21 as mass vaccinations allow for activity to start normalizing rapidly. So far, surveys have moved in the right direction. Most notably, this week's March DM flash PMIs marked broad-based gains across sectors. The larger gain in the services PMI is consistent with the notion that the rebound in growth is a services sector story. Mobility measures and our [Chase consumer card data](#) also have moved in the right direction. The bigger test will be virus developments, as we have seen a notable increase across Europe and large EM economies over recent weeks. Delays in vaccine supply are a contributing factor, complicated by the ongoing spread of new variants.

Figure 1: J.P. Morgan global GDP

% change saar; both scales

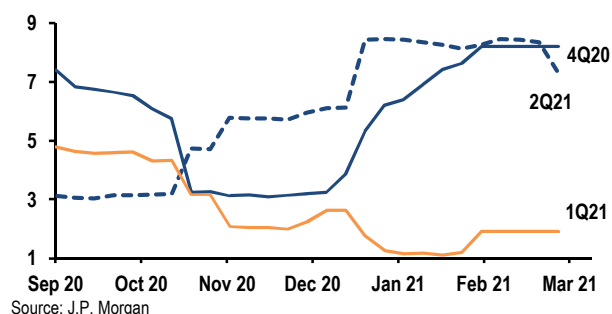
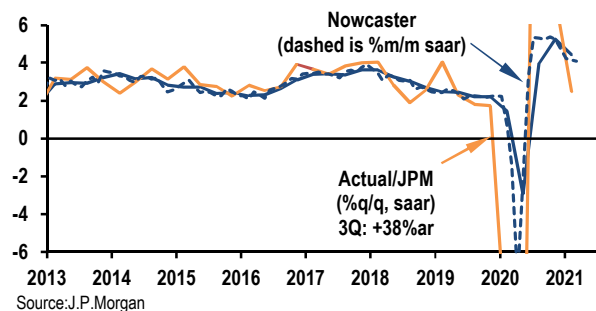


Figure 2: Global real GDP

%q/q, saar; J.P. Morgan projection and Nowcaster through 1Q21



Our top-down global nowcaster for tracking 1Q global growth remains at 4.4% ar this week (Figure 2). The top-down nowcaster is tracking well above our official forecast, consistent with our view that there is meaningful upside risk to growth this quarter. The nowcaster sent the right signal of upside risk through all of 4Q20. This week, the aggregate of our bottom-

up nowcasters continued to move lower, settling at 1.2% ar—notably below the official forecast (Table 1). The declines on the week were concentrated in Latin America and EMEA EM. At the national level, the three largest economies (China, the EMU, and the US) each project slower growth than the official outlook (Figure 3). In most other countries, the risk bias for growth this quarter points up.

Table 1: Real GDP

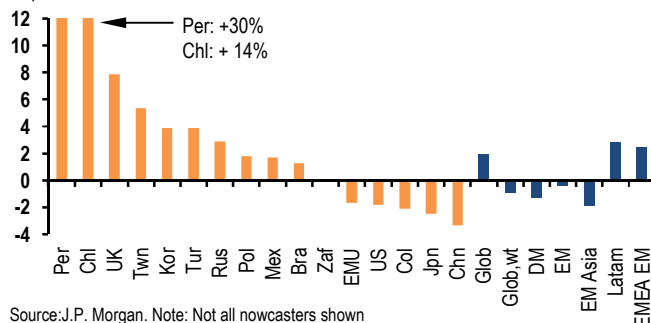
%q/q, saar. Underline indicates J.P. Morgan forecast

	4Q20		1Q21	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	<u>7.5</u>	5.2	<u>2.5</u>	4.4
Weighted Avg*	<u>6.7</u>	7.1	<u>2.2</u>	1.2
Developed*	<u>3.3</u>	5.6	<u>1.6</u>	0.3
US	4.3	7.3	<u>5.0</u>	3.2
EMU	-2.6	1.4	<u>-1.0</u>	-2.7
UK	4.0	-1.2	<u>-9.4</u>	-1.5
Canada	9.6	5.0	<u>5.0</u>	1.8
Japan	11.7	13.4	<u>-1.0</u>	-3.5
Emerging*	<u>12.7</u>	9.7	<u>3.1</u>	2.8
EM Asia*	<u>13.6</u>	8.6	<u>5.5</u>	3.6
China	14.9	8.9	6.0	2.7
Korea	5.0	7.2	<u>3.0</u>	6.9
Taiwan	5.8	5.7	<u>4.0</u>	9.4
Singapore	15.9	5.7	1.0	14.8
Latam*	<u>17.4</u>	15.2	<u>-2.9</u>	-0.1
Brazil	13.3	9.6	<u>-5.8</u>	-4.6
Mexico	13.7	15.9	<u>-0.5</u>	1.2
Argentina	19.4	14.2	<u>0.0</u>	-5.3
Chile	30.1	22.8	<u>4.0</u>	18.1
Colombia	26.5	24.1	<u>3.5</u>	1.4
Peru	38.1	35.3	<u>-16.0</u>	14.6
EMEA EM*	<u>4.0</u>	8.7	<u>-0.1</u>	2.4
Poland	-2.8	9.3	<u>-0.9</u>	0.9
Hungary	5.6	3.3	<u>-2.5</u>	5.0
Czech Rep.	2.4	3.3	<u>0.0</u>	-4.1
Romania	20.7	13.0	<u>-2.5</u>	1.6
Russia	<u>2.2</u>	6.5	<u>2.0</u>	4.9
Turkey	6.9	9.5	<u>-3.9</u>	-0.1
South Africa	6.3	19.4	<u>1.8</u>	1.8

* Aggregates are GDP weighted averages of constituents. Source: J. P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

Figure 3: Risk bias, 1Q21

%-pts. Nowcast minus forecast



This week the main data event was the March DM flash PMIs. On net, the surveys came in positive, underscoring our

view that activity is set to gain momentum. The services PMI showed a 1.6pt increase against a 0.6pt gain in the manufacturing counterpart, consistent with the story that services are set to drive the pickup in activity. We also looked more closely at the most recent data on new COVID-19 case counts. New cases have been increasing across Europe and in a few large EM economies. By contrast, due to vaccinations, new cases continued to fall in the US, the UK, and Israel. Our latest update on employment tracking through February shows the level remains 3.2% below its pre-pandemic level, which suggests a long path to a full recovery.

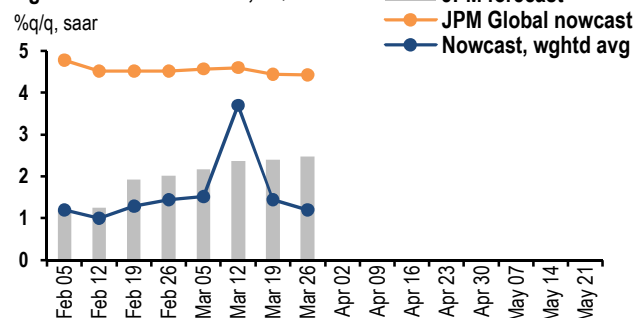
Table 2: J.P. Morgan global aggregates

%ch, sa (ar for qrt). PMIs are levels. Confidence is std.dev from 2010-pres avg

	4Q20	1Q21	Dec20	Jan21	Feb21	Mar21
PMI, mfg	54.9	54.2	54.9	54.1	54.2	54.3
PMI, serv	52.3	52.5	51.8	51.6	52.8	53.3
IP	15.7	6.1	0.6	0.8	-0.5	0.9
Retail sales	4.5	-4.1	-0.6	0.1	-1.0	1.0
Auto sales	10.7	-18.4	3.9	-6.2	-1.7	1.1
G-3 cap. ship.	26.0	14.2	-0.1	2.8	0.0	1.1
G-3 cap. orders	27.6	14.3	2.2	0.5	1.2	0.9
Cap. imports	35.3	11.9	2.1	-2.5	3.1	0.6
Bus conf	0.1	0.5	0.2	0.2	0.7	0.7
Cons conf	-0.4	-0.3	-0.4	-0.5	-0.3	-0.3
Nowcast (ar)	5.2	4.4	4.8	4.2	4.2	4.1

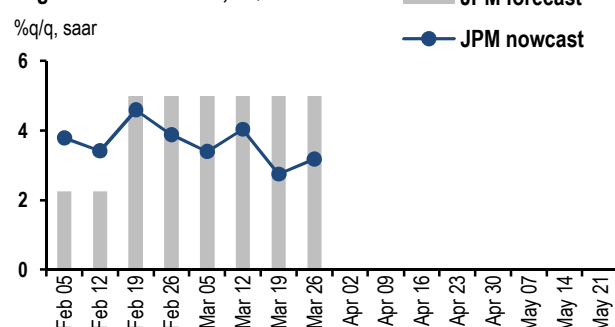
Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment. Source: J.P. Morgan, Markit, and national statistical agencies.

Figure 4: Global real GDP, 1Q21



Source: J.P. Morgan

Figure 5: US real GDP, 1Q21



Source: J.P. Morgan

Figure 6: Euro area real GDP, 1Q21

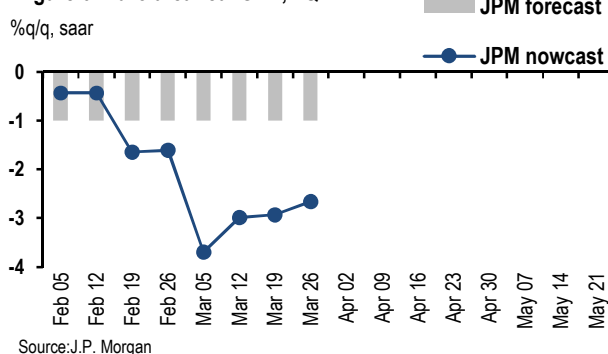


Figure 7: EM Asia real GDP, 1Q21

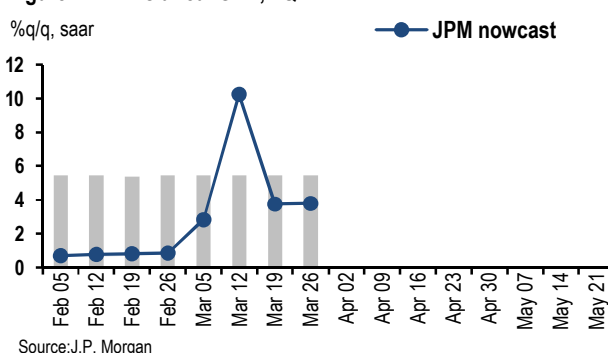


Figure 8: Latam real GDP, 1Q21

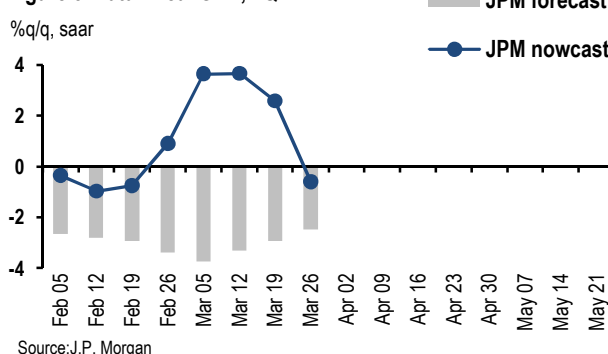
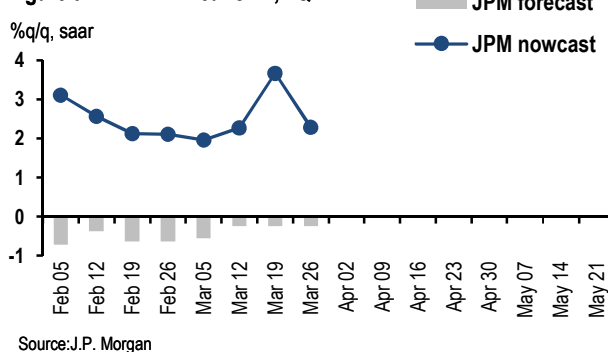


Figure 9: EMEA EM real GDP, 1Q21



* For primer on various Nowcasters, click here: [Global](#), [US](#), [EMU](#), [UK](#), [Japan](#), [EM](#).

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The J.P. Morgan View

After Q1's taperless tantrum, what could be different in Q2

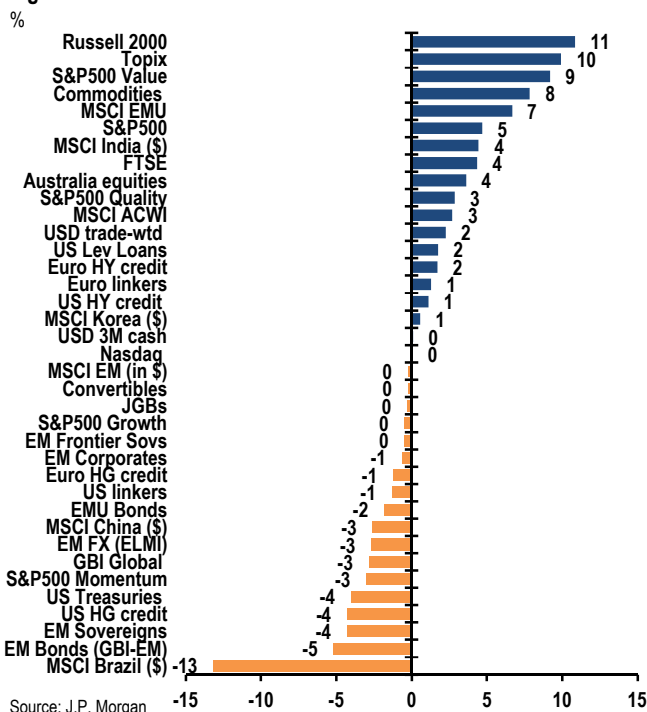
- **Cross-asset strategy:** Q1 delivered a similar return profile to the spring 2013 taper tantrum, but without even a hint of Fed tapering. Regardless of the catalyst, what matters now is that risk premia for inflation and Fed action are more appropriate, which reduces the scope for further disruption this spring. This week's *View* discusses five macro themes that might distinguish Q2 from Q1, with an emphasis on how much of the scenario is already discounted and where the remaining opportunity lies. These are (1) a boom in global growth finally arrives; (2) the inflation overshoot starts to materialize; (3) the Bond bear market becomes low-vol; (4) Oil markets face a US production test; and (5) Biden confronts an immediate geopolitical challenge. There is no change to overall strategy, which remains mostly in Equities, Value plays and Commodities ex Gold, with the possibility of re-entering EM if Bonds behave.
- **New trades:** Upgraded Industrials to OW in MSCI EM ([Martins](#)); bought EMU Equity upside conditional on EUR/USD lower ([Silvestrini](#)); bought FX vol vs Equity vol ([Ravagli](#)); entered CDX.IG curve steepeners and turned neutral on HY/HG decompression ([Beinstein](#)); sold AUD/USD ([Jarman](#)).
- **Must-read reports:** [Vaccination benefits becoming evident at 15-20% vaccination rate](#) (Kim); [Are anti-vaxxers a threat to the recovery?](#) (Feroli); [Explaining the rise in global COVID infections: mobility and variants](#) (Mackie); [EM Corporates: Resilience vs higher rates, past & present](#) (Hong).
- **Economics:** Although a handful of US indicators have been poor and COVID-19 cases are rising rapidly in some countries (France, [Germany](#), [Central Europe](#), Brazil, India), our economists remain confident in a Q2 boom that extends into 2022. US consumption is already responding to stimulus checks based on our daily Chase card spending data (see [Edgerton](#)), and Europe is demonstrating resilience despite the case count and a flubbed vaccine rollout, judging from this week's flash PMIs (see [Brun-Aguerre](#)). So the worst case seems to be a delay rather than cancellation of a growth surge, with risks being much more regional than global. Despite this punchy growth view, we still think slack dominates speed in containing inflation.
- **Equities:** Month-end rebalancing will likely result in buying rather than selling ([Kolanovic](#)). We have upgraded Industrials to OW within EM ([Martins](#)).

- **Bonds:** In the US, the environment is becoming more conducive for bearish steepeners but we stay neutral as re-balancing flows could push yields lower.
- **Credit:** Top line spread moves have been modest in Q1 but there have been some surprises ([Beinstein](#)). In Europe, we have updated our top trades ([Bailey](#)).
- **Currencies:** Our framework balances global reflation with US exceptionalism but recently emphasized the latter. Keep existing USD longs vs G10.
- **Commodities:** The growth rotation from goods to services is critical and favors upside for energy commodities at the expense of metals ([Kaneva](#)).
- **Catalysts next two weeks:** Fed speak (both weeks); Euro area CPI (Mar 31st); manufacturing PMIs & [OPEC+ meets](#) (Apr 1st); US payrolls (Apr 2nd); RBA (Apr 4th); services PMI (Apr 5th); FOMC minutes & RBI (Apr 7th).
- **JPM View video:** [click here to watch](#).

The J.P. Morgan View will not be published on April 2nd due to market holidays. The next edition will be issued on April 9th.

This excerpt of The J.P. Morgan View has been adapted for Global Data Watch.

Figure 1: Year-to-date returns



At their current pace, markets should end Q1 with a return profile similar to the spring 2013 tantrum, even without the Fed signaling any intention to taper this year ([chart 1](#)). Year-to-date returns have been above average for Global Equities and for most variants of the Value rotation (MSCI EM's underperformance is the exception), while most of Fixed Income has delivered negative returns and underperformed Cash. Within Credit, only US/Euro High Yield and Loans have generated positive returns due to insufficient running yield and spread tightening to offset duration losses, just as occurred in 2013. The dollar has rallied slightly less than during the original tantrum but it has appreciated as broadly against DM & EM pairs. Commodities ex Gold have rallied more now than then, aided by OPEC+ compliance and more stable China growth.

As damaging as rate moves have been for Fixed Income returns due to low starting yields, little about the magnitude of the rate rise or the cross-asset contagion has been abnormal by historical standards. More specifically: a +100bp move in US 10Y rates occurs at some point when the global economy transitions from recession to expansion; nominal rates almost always rise more than inflation breakevens, so real rates increase; Equities almost always rise with yields, led by Cyclical and Value; Credit spreads almost always tighten; and Commodities ex Gold almost always rally. The trade-weighted dollar behaves less consistently than core asset classes when yields rise, given the offsets from stronger global growth, higher commodity prices and equity Value rotation, but this year's rally is nonetheless in line with a bias towards tracking rates higher.

Like many who formulated their year-ahead views in late 2020 between a November election that suggested a divided government and a January Senate run-off that resurrected the Democratic sweep, **we were right on the direction of rates but wrong on the magnitude of the move.** Fortunately, the core cyclical allocations within the model portfolio have been in Equities rather than Credit, in non-US Equities and Value stocks rather than US ones, and in Commodities ex Gold. We reduced EM exposure in February such that the remaining overweights are in MSCI EM and EM Sovereigns/Corporates rather than in FX or Bonds (we're slightly short EM duration – see *Core trade recommendations* on page 9).

Any discussion that stops at the asset class levels ignores the most interesting moves within in, particularly those suggestive of asset bubblettes that might be deflating. From their January peaks, those funds, stocks or currencies associated with either economic or financial innovation – ARK Innovation Fund, Solar Energy stocks, BioTech stocks, cryptocurrencies, SPACs – are down 20-25%. These corrections are trivial compared to the past few years' gains ([chart](#)

[2](#)), but they nonetheless are starting to reconfirm a familiar dynamic – Fed rate normalization rarely unfolds without disruption somewhere. Actual or suspected Fed hikes and balance sheet changes since at least the mid-1980s seem to eventually convince investors to choose the red pill over the blue one, and so to recognize the extreme valuations, price momentum and positioning that can turn any credible bull market into a bubble. Examples of high-volatility price declines that occurred during Fed normalization cycles include Black Monday in 1987, the Mexican Peso Crisis in 1994, the dot-com bubble burst in 2000, US sub-prime tremors in 2006/early 2007, the taper tantrum in 2013, the EM credit crunch in 2015, and the S&P500's collapse in December 2018. Some of these collapses were followed by complete retracements, particularly if the next recession was still several years in prospect. But the mid-cycle drawdowns nonetheless rank amongst the largest ones ([chart 3](#)).

We don't think there is a more systemic risk to be catalyzed, at least not until much later in the Fed cycle. We have been noting since late 2020 that there has been a broad valuation problem across FICC and Equity markets in that such a higher percentage of them trade at high P/Es, tight credit spreads or low real yields for such a young expansion; usually such broad expensiveness doesn't develop until much later in the business cycle as a correlate to overconfidence ([chart 4](#)). But we haven't equated high valuations with bubbles at the asset class or even the sector level because these markets didn't exhibit the other telltale signs of excess such as extraordinary price momentum and investor leverage (see *The retail phenomenon (again), bubble spotting and a temporary unravelling of consensus trades* in the Jan 29th *J.P. Morgan View* and *Outlook remains positive: Buy the dip; where are the bubbles and COVID-Green risk* by Kolanovic from Jan 27th). In the absence of excess at the asset class level, US rates would need to move much more to trigger meaningful drawdown in core markets. The wildcard is where a market that is somewhat core like **US Small Cap Equities** is held by the same retail investors who have been active in some of the thematic Equities that have been deflating. But the downside for the Russell 2000 should be more contained since neither its valuations nor its price momentum have matched that of other assets in the retail community's barbell portfolio. Institutional investor positioning also appears to be more moderate ([chart 7](#)).

Compared to the unusualness of Q1's catalysts – a last-minute Democratic sweep, a surprisingly large \$1.9trn US stimulus, meme stock trading, bubblettes bursting – **Q2 will probably look less dramatic, even if it delivers important changes.** Below are several examples.

1) Growth finally booms. Q1 was a period when global growth delivered more than expected judging from moves higher in JPM's data surprise indices (**JPEASIGL**) and our economists' Forecast Revision Index (**JFRIGLOB**). But it wasn't a period when global growth boomed: the expansion probably ran at a slightly below-trend pace of 2.5%, as a small contraction in Europe offset strong US (5%) and average China (6%) performance. Q2 should deliver the surge (+7% globally), driven by +9% expansions in the US (mostly from stimulus), 9% in Europe (mostly from reopenings) but just 5% from China. The European view is obviously dependent on a major step-up in vaccinations that breaks the link between mobility and COVID-19 infections, but with vaccine delivering set to triple in Q2, a European catch-up is a reasonable baseline ([chart 5](#)).

Does a boom move markets that are already rich on every short- and long-term valuation framework we monitor?

Probably. Economic momentum has a tendency to drive price momentum, even if starting valuations are high. But this judgment about expensiveness only applies mainly to DM Equities and to DM/EM Credit. Value as a style remains very cheap relative to the Growth; Commodities ex Gold trade near their long-term, inflation-adjusted levels; EM Currencies generally trade below their long-term average; and some EM bond markets (China, Indonesia, Russia, South Africa) are cheap based on real yields, hence why a global growth boom can still motivate relatively large moves within asset classes, even if major Equity and Credit benchmarks appear rich. For those who only think at the asset-class level, it is worth recalling that cash positions remain very high on some measures, like money market holdings relative to pre-recessions levels ([chart 6](#)). So regardless of one's view about the relative winners and losers as the expansion advances, it is very likely that broad asset price inflation persists as investors reallocate from safety.

2) Inflation starts to overshoot. So far, meaningful inflation in the DMs due to policymakers' hyper-stimulus and earnestness has been more about hope and fear than about reality, given that actual US core PCE is running at about 1.4%; European, Japanese and Chinese core runs even weaker (1%, 0.3% and 0%, respectively). Expectations for a revival this spring are universal from policymakers and investors; the only debate is how high, for how long and with what central bank response. The JPM view is that US core inflation, which is the only price gauge relevant for global markets, will rise a few tenths about 2% for a few months before slipping to about 1.8% by year-end and remaining near that rate for a couple of years. Hence a call that the Fed will taper in 2022 – because it will judge itself to have made “substantial progress – but that it won't be tightening in 2022 or 2023.

Does it matter how high actual inflation is in Q2? Potentially not, given how error-prone anyone's forecast would be in an environment when a surge in services demand collides with supply bottlenecks, both of which the Fed characterizes as transitory. The key issue for markets is the persistence of +2% core, since a year of core running hot (by US standards) could meet the precondition for Fed tightening. If Q2 inflation readings do exceed expectations for a short-term bounce, the risk of higher yields more stems from their richness on some measures. Note that current breakevens rates of about 2.3% don't discount Fed success of achieving an inflation overshoot, after controlling for the 30-40bp spread between headline inflation used to price linkers and the core PCE measure that drives Fed policy. Also, the nominal curve (US 10Y minus Fed funds) is somewhat flat relative to even the current level of breakevens ([chart 8](#)). So even if the short end factors in a much earlier start to the Fed tightening cycle than we do (money markets price a mid-2023 liftoff versus the JPM call for early 2024), intermediate yields do not look prepared for higher inflation.

3) The return of the low-vol bear market in Bonds. Importantly, it is possible to be bearish on Bonds and neutral on rate volatility, meaning that rates rise to reflect growth optimism and moderately higher inflation, but at a much slower pace than occurred in Q1 2021 or during the spring 2013 tantrum. High-vol repricing occur when a Fed rethink occurs in the context of a bond market that is rich and over-owned. Valuations have adjusted substantially on some measures (level of breakevens and money market pricing more than curve steepness), and positioning is mixed (futures positions are short, JPM durative survey is close to neutral).

Another large US fiscal package for Infrastructure unfunded by tax increases would extends Q1's high-vol, disruptive bear market in Bonds, by requiring a greater risk premium for higher inflation, faster tapering and little pause between the end of tapering and the start of tightening. But such a shocker seems unlikely when the Administration could fully fund a \$1.5trn package via campaign proposals to raise corporate, upper-income household and capital gains taxes (see [The other sting in the tail from fiscal policy -- higher taxes and the Value rotation](#) in the March 9th J.P. Morgan View). So our bias is to expect a large headline package but much less rate, FX and EM disruptions as a consequence, due to less fiscal impulse and bond supply as taxes rise. The clear beneficiaries should be those parts of Equities and Commodities most linked to Infrastructure spending (Value stocks, Green Energy & Metals/Mining Equities, Commodities ex Gold), only one of which (Green Energy) carries high valuations (see [\\$1.9trn down, \\$2trn to go – first thoughts on what Biden's infrastructure plan could mean for markets](#) in the March 12th J.P. Morgan View).

The more discreet beneficiary of a low-vol Bond bear market could be EM Currencies and Equities. The trade-weighted dollar typically outperforms and the EM complex underperforms during large, high-volatility jumps in yields. But what occurs over intra-quarter episodes doesn't always extend through the fullness of a business cycle or a Fed cycle. Other, medium-term considerations include whether the US current account is widening (as during the 2004-06 Fed hiking cycle) or narrowing (as during the 2013-18 Fed cycle); and how much real rates will rise as the Fed pursues an inflation overshoot. Just a modest rise in nominal rates in Q2 might be sufficient to drive EM outperformance given that real rates would stabilize against a widening US funding requirement ([chart 9](#)). That currency catalyst is probably all that is required to allow MSCI EM to participate in a global Value rotation that has been working on Equity style and sector basis, but not in every regional dimension ([chart 10](#)).

4) Oil faces a supply test from US production. Q1 2021 demonstrated the most uncharacteristic of corporate behaviors: US oil producers undertook engaged in little capex and kept production unchanged despite rising demand, cheap financing and high-ish price environment ([chart 11](#)). US output restraint has allowed OPEC+ to cut production, raise prices and increase revenue without ceding market share to US shale – it's more Libya, Canada, Brazil and to a lesser extent Iran whose relative position has improved ([chart 12](#)). This regime is sustainable as long as US producers only slowly normalize output in response to improving demand due to less work-from-home and more international air travel. That, indeed, is the JPM view across Commodities and Energy Equities. But Q2 presents an important test for that pace given that the US rig count has already been rising steadily for several months, which always precedes an output increase. Note that some petro assets like Energy Equities and the Russian ruble still price discount an Oil price lower than current spot rates (regressions suggest that about \$55/bbl is priced into Energy stocks and \$45/bbl into the ruble, but about \$65/bbl is in High Yield Energy Credit).

5) Biden faces his first geopolitical challenges. During last fall's presidential campaign, prospects for a Biden victory were always associated with outperformance of EM assets, on a view that Trump's policies had put a risk premium into these markets and kept global investors underexposed to them. After two months with Biden in the White House, two things should be clear: there is no so much process around US foreign policymaking (thankfully) that nothing around China, North Korea, Iran or the EU will be aggravated nor resolved soon; and that Fed policy plus vaccine progress are probably the more important driver of EM markets in Q2.

There is one exception, however, related to the same challenge former President Trump faced two years ago in spring 2019 via an immigration crisis on the US-Mexican border. Back then, the number of apprehensions along the Southwestern border was running at an annualized pace of about one million people, prompting a range of security measures and tariff threats that reduced border crossings by half and temporarily upended Mexican markets. This year, apprehensions have surged again to a decade high ([chart 13](#)). The approach of President Biden – or VP Harris, who has been tasked with this problem – bears watching, both for implications for Mexico and his approval rating, which has slipped from about 56% at inauguration to about 53% currently.

Equities

Global equity markets were mixed this week. In Europe, Tech was the best performer, as bond yields initially retreated, whereas Energy was the worst. In the US, Real Estate was top, while Communication Services were bottom. Regionally, Emerging markets trailed.

Our Global equity strategists maintain a constructive stance on equities, expecting them to benefit from an improvement in activity momentum in Q2, and to weather the volatility in yields. Within this, they focus their longs in Financials and the consumer reopening trade, and continue fading Tech & Miners on higher US bond yields and a potentially stronger dollar. Regionally, it appears that many favor US over Eurozone but our strategists believe that US will not be a regional leader this year. They have switched out of US and upgraded Eurozone in November. There is some evidence of rotation. In contrast to 2020, when US beat Eurozone by a big 22%, so far ytd MSCI Eurozone is up 7%, vs MSCI US at 4%. Now, Eurozone is a typical beta play on a global cycle, and some potential firming in USD, and some relative rollover in the China credit impulse, might not bode well for a continued run in commodities/global cycle plays. Still, the key consideration for the regional trade is the Value/Growth tilt. If Banks are performing better vs Tech, then Eurozone has a fighting chance to outperform. Along with the regional switch, they had also cut Tech and upgraded Banks to OW in November. Second, relative regional growth gap might not fully close, but will for sure narrow significantly. Importantly, Eurozone PMI is likely to turn up vs US, and it usually correlates well with relative regional performance. The relatively slower vaccinations pace might not penalize Europe much from here, as this is to some extent already reflected in the equity market (see [Equity Strategy](#) by Matejka et al from Mar 22nd).

Our Quantitative strategists find that fixed weight monthly rebalances are prevalent, while quarter-end rebalances

effectively lost meaning and actually result in opposite flows. In the current month- and quarter-end, with the bond-equity spread down ~3% month to date, and ~8% quarter to date – historical analysis would imply bond-equity performance in the range of equities down 30bps to equities up 30bps for S&P 500 and actual positive performance for Russell 2000 in the range from up 30bps to up 80bps. So there is no expected negative impact on equities from month-end (see [Market and Volatility Commentary](#) by Kolanovic et al from Mar 25th).

Our EM equity strategists continue to bias their allocation towards cyclical sectors. Within this, they argue that the optimism around the global reflation scenario is countered by US exceptionalism, de-synchronization of EM policy rate cycle vs DM and the need for fiscal rebalancing in EM. They upgrade Industrials to OW within EM, as it is poised to benefit from: 1) Rebound in global growth and manufacturing activity; 2) positive optionality from sustained re-opening as mass inoculation progresses; and 3) positive fundamental view on major subsectors such as airlines and airports, container shipping, construction machinery, and industrial automation in Asia (see [Key Trades and Risks](#) by Martins et al from March 25th).

Bonds

Bonds rallied this week amid resurfacing concerns over COVID-19 infection rates and softness in risky assets. In the US, while the trend in vaccinations continues apace, the slowing in infection rates has flattened out somewhat and compounded a weaker run in data releases. Looking ahead, the valuation gap for UST yields is closing and reflation positions have been pared back. While the environment is becoming more conducive for bearish steepeners, tactically our strategists stay neutral as there is still room for quarter-end rebalancing flows to push yields lower. With the Fed continuing to signal a patient reaction function, they stay long 5Yx5Y inflation swaps.

In the **Euro area**, the ECB's PEPP purchase data confirmed a significant increase in the weekly net purchase pace to €21bn, or around €90-100bn per month together with regular APP purchases. With yields closer to the lower end of their -40bp/-20bp range after the rally, our strategists remove a tactical bullish bias and keep bearish medium-term exposure via options in 1s/10s EUR weighted bear steepeners. Intra-EMU, they keep spread compression exposure via long 10Y Spain vs. Germany and 10s/30s Italy flatteners.

In the **UK**, our strategists fade the recent rally and enter tactical shorts in 10Y gilts given momentum, valuations and typical March month-end seasonals. They keep 10s/30s gilt curve steepeners. In the **Antipodes**, the separation of monetary and financial stability mandates for dealing with rising housing

prices was underlined by the NZ government introducing sweeping changes on tax treatment for investment properties. With Australia likely to follow with macro prudential policy changes, albeit less aggressive, our strategists keep longs in 10Y ACGBs vs. USTs and longs in 2Yx1Y AUD swaps.

In **EM**, our strategists find that rising US yields, and real yields more than nominal yields, matter for EM local bond returns. Their rules of thumb suggest that with the bulk of the forecast rise in 10y UST yields coming from real yields implies negative returns going forward (see [EM vs. US Rates: Rules of Thumb](#) by Goulden et al from Mar 26th). On China's ongoing index inclusion, they expect FTSE Russell to confirm the inclusion of onshore Chinese government bonds in its WGBI index, which could see total passive inflows of \$95-110bn (see [March 2021 FTSE FI Country Classification Preview](#) by Wang et al from Mar 25th). They stay UW in local duration. In EM Asia they are UW via Malaysia, partially offset by OW China. They remain neutral in EMEA EM with UW Czech and Poland offset by OW Russia. And in Latam they are UW via Peru and Chile, partially offset with OW Mexico (see [EM Local Markets Roundup](#) by Harrison from Mar 22nd).

Credit

While in US HG the top line spread moves have been modest in Q1 there have some surprises. One of the surprises is the lack of outflows from funds this quarter, despite the very negative total returns. Another surprise is the strength of supply. Perhaps not a surprise was the flattening of the 10s30s spread curve, which is at a 6-year low (excluding the most stressed COVID-19 selloff period in 2020). Another interesting aspect of 1Q has been the continued compression across ratings and sectors, even in periods when the market was weak. A final notable trend in 1Q has been the surge in M&A. Looking forward into 2Q political developments will become more mixed. In 1Q they were one way positive – massive fiscal stimulus was agreed and passed. In 2Q we may have progress on even more fiscal stimulus, but also more discussion of higher taxes and increased regulation/scrutiny of various sectors in HG credit (see [Credit Market Outlook & Strategy](#) by Beinstein et al from Mar 26th).

In Europe, the team continues to expect spreads to trade range bound, and recommend that investors buy diversified carry from volatility, illiquidity, and tail risk. In the top trade portfolio, the team: i) sells an iTraxx Main S34 June 45bp straddle for 37c; and ii) buys EUR IG TRS to June hedged using duration weighted Bobl futures (see [European Credit Weekly](#) by Bailey).

Currencies

The dollar index rallied for the fifth week in the past six, but it was the first week that this occurred against a decline in US yields. Earlier this year, the team had warned that the dollar smile had been squeezed narrower from both ends – with US fiscal raising the probability of US-exceptionalist dollar strength on the right-hand side, and a number of contingent risks to the global outlook raising the probability of a risk-off dollar bid on the left-hand side (see [FXMW](#) by Meggyesi et al from Jan 19th).

This week's dollar bid had elements of both: although UST 10y yields declined by as much as 16bp from mid-week highs last week, US bond yield spreads in fact widened vs all G10 peers, as bonds elsewhere rallied more. Meanwhile, the risk-negative catalysts driving the most acute dollar strength were largely idiosyncratic, but does tie into the pressure from rising yields and does make the overall risk environment more vulnerable.

Our strategists remain comfortable and reiterate their framework which balances the expectations of global deflation with the US exceptionalism. The macro portfolio has emphasized more of the latter recently, not least given the imminent kick-off of formal US infrastructure package next week keeping the focus on US fiscal upside in the headlines, just as the stimulus from the last package is just starting to kick in. Hence, the team continues to hold onto a broadened collection of USD longs against most G10 currencies. But the medium-term strategy continues to expect global deflation to remain a concurrent durable theme this year, events and price action this week notwithstanding (hence holding onto longs in CAD, NOK, RUB, and CNH, non-dollar funded).

Commodities

In 2021, the US is expected to make a similar contribution to 2021 global growth as China. This, combined with policy normalization in China, should in turn dislocate the global manufacturing PMI from its China anchor. The widened dislocation requires a new, more holistic framework to forecast prices.

Under this new framework, it does still appear that there has been a significant amount of overshooting of model-predicted values in 1Q. It is likely that a lot of the anticipated bullish news has already been priced in and copper likely won't continue to trend higher even if it may be slow to fall. The changing sectoral composition (from goods to services) of consumer growth over the course of this year will likely also be key. The world will rotate from buying metals-intensive, working-from-home electronics, kitchen appliances and gym equipment to spending money on oil-heavy travel.

This growth rotation favors upside for energy commodities at the expense of metals. (see [Base Metals Quarterly](#) by Kaneva et al from Mar 24th).

In Oil, our strategists find little evidence that the 7% prices decline over the last six trading sessions was driven by deteriorating fundamentals. The view is that a significant part of this selling came from systematic investors, namely CTAs as stop-loss signals got triggered. Once the stop loss clears on a rolling basis, and that can happen any day now, CTAs will still be left with largely positive signals for oil and they will re-engage their long asset exposure.

Despite a flurry of relatively bearish demand headlines in the last few weeks, forecasts are little changed. The team still see demand growing over the course of 2021 and finally breaking above pre-pandemic levels in March 2022. **On the supply side**, drilling rigs are coming in lower than expected in the Permian. However, well completions are likely to beat our strategists' expectations. Hence, total US crude oil production could exit 2021 more than 200 kbd higher than the current outlook.

OPEC+ is scheduled to meet next week to decide on production policy for May. Mounting lockdowns in Europe and Latin America will likely force the alliance to err on the side of caution, mostly rolling over its production cuts into May with Saudi Arabia extending its voluntary 1 mbd curb by one more month. (see [Oil Markets Weekly](#) by Kaneva et al from Mar 26th).

Cross-asset forecasts & strategy

Rates	Current	Jun-21	Sep-21	Dec-21	Mar-22
US (Fed funds)	0.07	0.00	0.00	0.00	0.00
10-year yields	1.66	1.75	1.85	1.95	2.05
Euro area (depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.35	-0.35	-0.25	-0.20	-0.10
Italy-Germany 10Y (bp)	96	80	75	85	90
Spain-Germany 10Y (bp)	63	55	50	55	55
United Kingdom (repo)	0.10	0.10	0.10	0.10	0.10
10-year yields	0.76	0.95	1.05	1.15	1.20
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.08	0.10	0.15	0.15	0.15
EM Local (GBI-EM yield)	5.02			4.29	
Currencies	Current	Jun-21	Sep-21	Dec-21	Mar-22
JPM USD Index	120	119	120	120	120
EUR/USD	1.18	1.18	1.17	1.17	1.16
USD/JPY	110	107	106	105	104
GBP/USD	1.38	1.39	1.38	1.37	1.36
AUD/USD	0.76	0.74	0.72	0.71	0.71
USD/CNY	6.54	6.35	6.35	6.35	6.35
USD/KRW	1129	1110	1100	1090	1090
USD/MXN	20.63	20.75	21.25	21.50	21.75
USD/BRL	5.75	5.55	5.50	5.45	5.40
USD/TRY	8.10	7.75	8.00	8.25	8.50
USD/ZAR	15.03	15.50	15.75	16.00	16.25
Commodities	Current	Mar-21	Jun-21	Sep-21	Dec-21
Brent (\$/bbl, qtr end)	65	67	67	73	74
WTI (\$/bbl, qtr end)	61	65	65	70	71
Gold (\$/oz, qtr avg)	1,730	1,790	1,650	1,590	1,550
Copper (\$/ton, qtr avg)	8,791	8,470	9,000	8,180	7,550
Aluminum (\$/ton, qtr avg)	2,231	2,085	2,200	2,050	1,965
Iron ore (US\$/dt, qtr avg)	166	169	170	160	150
Wheat (\$/bu, qtr avg)	6.2	6.2	6.1	6.0	6.3
Soybeans (\$/bu, qtr avg)	14.0	10.7	10.5	10.5	10.5

Source: Bloomberg, Datastream, J. P. Morgan

Credit		Current	Dec-21
US High Grade (bp over UST)	JPM JULI	125	110
Euro High Grade (bp over Bunds)	iBoxx HG	103	90
US High Yield (bp vs. UST)	JPM HY	421	375
US Lev Loans (bp vs. 3Y Index)	JPM LL	442	450
Euro High Yield (bp over Bunds)	iBoxx HY	335	300
EM Sovereigns (bp vs. UST)	JPM EMBIGD	354	355
EM Corporates (bp vs. UST)	JPM CEMBI	251	225
Equities		Current	Dec-21
S&P 500		3,931	4,400
MSCI Europe		1,703	1,830
MSCI Eurozone		244	268
FTSE 100		6,741	7,100
Topix		1,984	1,900
MSCI EM (\$)		1,288	1,450
MSCI China		106	125
MSCI Korea		960	900
MSCI Taiwan		662	605
MSCI India		1,638	1,430
Brazil (Ibovespa)		113,957	134,000
Mexico (MEXBOL)		46,763	46,300
MSCI South Africa		1,477	1,795

Equity sector recommendations & year-to-date returns

	US		Europe		Japan		EM
Energy	31%	OW	14%	N	37%	N	N
Materials	7%	N	9%	OW	11%	N	OW
Industrials	8%	N	8%	N	12%	OW	-1%
Discretionary	0%	OW	9%	N	9%	OW	-5%
Staples	0%	UW	1%	UW	1%	N	-5%
Healthcare	1%	OW	2%	N	-3%	UW	-8%
Financials	15%	OW	13%	OW	25%	OW	1%
Technology	-1%	OW	7%	N	6%	N	3%
Comm Services	6%	N	9%	UW	10%	UW	4%
Utilities	1%	UW	-1%	OW	17%	UW	1%
Real Estate	7%	UW	-3%	UW	17%	N	3%

Core strategic and tactical recommendations by asset class

	Strategic (6M to 2Y trades)	Tactical (1M to 6M trades)
Asset allocation	Above-average OW of DM Equities & HY Credit vs Cash/Bonds; small OW of EM complex – Equities, Sovereigns & Corporates but short duration and neutral FX	No major changes in February edition of Global Asset Allocation
Equities	Country: biased towards US after Value rotation is more complete Sector: OW Healthcare; UW Staples, Utilities, REITs Style: biased towards OW Growth again	Country: OW EM ex China, EMU & Japan vs US, UK, rest of world Sector: OW Cyclical (Discretionary, Financials, Energy) Style: OW Value
Bonds	DM Duration: Neutral EM Duration: OW China, Russia, Mexico, & UW Chile, Peru, Czech, Poland, Malaysia in GBI-EM.	DM Duration: neutral DM Curve: neutral DM Inflation: long in US (5Y5Y) & AU (1Y), short Euros (5Y5Y) DM Spread: OW Spain (10Y) vs GE; OW AU (10Y) vs US US HY: OW CCCs & Bs vs BBs
Credit	US HG: OW Yankee Banks, Energy, Utilities, Cap Goods & Telecoms; UW US Banks, Healthcare, Tech & Retail US HY: OW Gaming, Transport; UW Healthcare, Tech, Cable, Paper, Industrials Euro HG: OW Autos, Toll Roads & Mail, Transport; UW Healthcare, Chemicals, Tech, Media Euro HY: OW Transport, Paper, Retail; UW Chemicals, Telecoms	Euro HG: Long AT1, sold protection on Itraxx Main super senior Euro HY: Long Itraxx Crossover vs Sub Financials EM Sovereigns: OW Pemex, Nigeria, Egypt EM Corporates: favour HY over HG globally; OW China (Property), CEEMEA Utilities, Latam Commodities
Currencies	Few strategic trades; most currency positions are tactical	Long USD vs EUR, CHF, GBP & JPY; short EUR vs NOK & RUB; OW RUB, MXN, CNY & CZK in GBI-EM
Commodities	Long JPMCCI Agricultural sub-index	Long Oil, short Gold & neutral Base Metals

Source: J.P. Morgan flagship weekly and monthly strategy publications, including [Global Asset Allocation](#), available on www.jpmm.com. Red shading indicates higher-conviction view

Economic Research Note

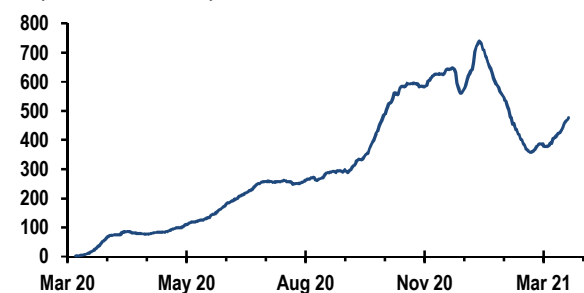
Global COVID infections rising due to increases in mobility

- Global COVID-19 infections have risen sharply in the past few weeks
- In the rapid vaccination countries new infections have fallen even as mobility has picked up
- Elsewhere mobility has gotten too high relative to the pace of vaccinations and the spread of new variants

After falling sharply from early January through late February, global COVID-19 infections have risen sharply in the past three weeks. After peaking at 881,000 on January 7, global daily new infections reached a trough of 289,000 on February 22. They now stand at 590,000 (Figure 1).

Figure 1: Global COVID-19 infections

Daily new infections, 7 day ma, 000s



Source: J.P. Morgan, Our World in Data

The recent pickup in new infections reflects a rise in the global reproduction number, from a trough of 0.870 on February 8 to a level of 1.061 on March 16. The reproduction number started to turn up slightly earlier than new infections because the starting point for the reproduction number was below one. New infections kept falling until the reproduction number reached one, which it did on February 23. Since then it has been at one or higher, consistent with rising new infections on average. This move in the reproduction number may not seem like a lot, but it is. A reproduction number of 0.870 is consistent with the level of new infections falling at a daily pace of 2.2%, which would mean a halving of new infections every 30 days. In contrast, a reproduction number of 1.061 is consistent with the level of new infections rising at a daily pace of 1%, which would mean a doubling of new infections every 68 days.

We can explain changes in the reproduction number, and hence the change in daily new infections, by considering developments in lockdown restrictions (affecting the number of daily contacts), the increase in immunity due to infection and

recovery and vaccination (which reduces the susceptible population), and the spread of new variants (which increases the secondary attack rate). Table 1 lays out our estimates of how changes in lockdown restrictions, increases in immunity, and the spread of new variants have contributed to the change in the reproduction number from February 8 to March 16. The contribution of the variant is the residual in the table in order to make the four contributions add up to the change in the reproduction number.

Table 1: Explaining the recent rise in reproduction numbers (Feb 8 to Mar 16)

	Change in reproduction number	Contributions of			
		Lockdown re-strictions	Vaccina-tions	Acquired immuni-ty	New variants
Global	0.191	0.058	-0.032	-0.004	0.170
US	0.148	0.165	-0.362	-0.022	0.367
UK	0.197	0.218	-0.429	-0.017	0.424
Israel	-0.191	0.374	-0.508	-0.043	0.000
Germany	0.423	0.411	-0.125	-0.008	0.150
France	0.147	0.031	-0.128	-0.024	0.268
Italy	0.077	-0.148	-0.116	-0.017	0.361
Spain	0.218	0.211	-0.084	-0.033	0.125
South Africa	0.397	0.041	-0.003	-0.005	0.367
Brazil	0.142	-0.171	-0.063	-0.018	0.393
Japan	0.330	0.092	-0.001	-0.001	0.240
India	0.374	0.024	-0.019	-0.001	0.369

Source: J.P. Morgan. The variant impact for Israel is negative suggesting a decline in transmissibility. It has been constrained to zero.

So, at the global level, an increase in daily contacts contributed 0.058 to the increase in the reproduction number, an increase in vaccinations exerted downward pressure on the reproduction number of 0.032, an increase in acquired immunity exerted downward pressure on the reproduction number of 0.004, which leaves the new variants contributing 0.170 to the rise in the reproduction number. If we assume that the new variants are on average 50% more transmissible than the previous dominant strains, this suggests an increase in the prevalence of new variants at the global level from February 8 to March 16 of 13.6%-pts. So, if new variants accounted for 5% of all global new infections on February 8, then on March 16 they accounted for 18.6% of new infections.

So, in summary, at the global level an increase in daily contacts and an increased spread of the new variants together exerted upward pressure on the reproduction number worth 0.228, while the increase in vaccinations and acquired immunity provided an offset worth only 0.036. This resulted in the reproduction number rising by 0.191, from just below one to just above one. Essentially, in the face of more transmissible variants, daily contacts have to be more constrained rela-

tive to any given pace of vaccination. This has not been the case at the global level.

Table 1 lays out our estimates of contributions to changes in the reproduction number from February 8 to March 16 for some of the countries we are monitoring closely. With the exception of the US, the UK, and Israel, reproduction numbers have moved from just below one to just above one since February 8, as vaccinations and acquired immunity have failed to provide a sufficient offset to an increase in daily contacts and the spread of new variants (Table 2). In the rapid vaccine rollout countries—the US, the UK, and Israel—the greater downward pressure from vaccinations has kept the reproduction numbers below one. Elsewhere, despite a decline in daily contacts in Italy and Brazil, reproduction numbers have risen above one in all of the countries with a slower vaccine rollout.

Table 2: Recent developments in reproduction numbers

	Feb 8	Mar 16	Change
Global	0.870	1.061	0.191
US	0.815	0.963	0.148
UK	0.794	0.991	0.197
Israel	0.898	0.707	-0.191
Germany	0.866	1.289	0.423
France	0.980	1.127	0.147
Italy	0.984	1.061	0.077
Spain	0.787	1.005	0.218
South Africa	0.639	1.036	0.397
Brazil	0.867	1.009	0.142
Japan	0.723	1.053	0.330
India	0.930	1.304	0.374

Source: J.P. Morgan

Although the contribution from new variants is a residual, the implied increases in prevalence look reasonable. As a cross-check on these estimates, Table 3 shows what these contributions mean in terms of the change in the prevalence of new variants over this period, assuming that the new variants are on average 50% more transmissible than previously dominant strains. For example, in the UK, it is widely thought that the variant B.1.1.7 (the so-called Kent variant) now accounts for almost all new infections (i.e., close to 100% prevalence). The contribution of the new variant in our estimates implies that in early February, variant B.1.1.7 accounted for around 70% of all new infections in the UK.

Table 3: Implied change in prevalence of new variants from Feb 8 to Mar 16

%-pts	
Global	13.6
US	29.4
UK	33.9
Israel	0.0
Germany	12.0
France	21.4
Italy	28.9
Spain	10.0
South Africa	29.4
Brazil	31.4
Japan	19.2
India	29.5

Source: J.P. Morgan

An important question is what would need to happen to daily contacts and the daily pace of vaccinations in order to push reproduction numbers back below one. *Ceteris paribus*, a decline in daily contacts of one reduces the reproduction number by around 0.072. This is a one-off levels effect that is sustained for as long as the new level of daily contacts persists. Meanwhile, an increase in the daily pace of vaccinations of 0.01% of the population reduces the level of the reproduction number by 0.0002 each day. At the global level, this would mean an increase in the daily pace of vaccinations by around 800,000, from the recent pace of 5.7 million to 6.5 million. The impact of vaccinations is cumulative, so this effect builds each day as long as the higher pace of vaccinations is sustained. So, if the pace of global vaccinations picks up to 6.5 million a day on a sustained basis, then after a month the reproduction number would be reduced by 0.006, all else equal.

Given ongoing vaccine supply constraints, it looks as if the global economy needs a decline in daily contacts of around one, relative to where they stood on March 16, to push the reproduction number back below one. Nothing is needed in the US, the UK, or Israel, while declines of more than one contact per day are needed in Germany, France, and India.

For an explanation of the methodology behind these estimates see our earlier work [here](#).

Economic Research Note

US: Are anti-vaxxers a threat to the recovery?

- **Less than 18% of the adult population is reluctant to get vaccinated; less than 8% “definitely” won’t**
- **There are significant demographic differences; notably, the old are the most likely to want to get vaccinated**
- **In our models, the number of anti-vaxxers is too small to materially change the timing of the pandemic’s end**
- **We conclude that anti-vaccination attitudes are not a major risk to the economic recovery**

A key assumption in the widespread optimism about the economy is that the accelerating pace of vaccinations will soon end the year-long public health crisis. A key risk is that people refuse to get vaccinated. In this note we employ a new data set produced by the Census Bureau that takes a thorough, biweekly look at the attitudes of the public toward vaccinations.

A few findings: Less than 18% of adults say they “probably” or “definitely” won’t get vaccinated; less than 8% are in the definite camp. This compares favorably to some more publicized but less comprehensive figures. For example, it was widely reported that about half of New York City firefighters declined a vaccine. The Census numbers are even more favorable when one looks at the “hard core” of these so-called anti-vaxxers: of the roughly 8% who are “definitely” opposed, maybe around 5% have entrenched reasons for opposing the vaccines. Moreover, the opposition is even smaller for those most at risk, the over-65 age group. Finally, since the survey first began in early January, there is a modest downtrend in the share of the population with reservations about the vaccines, particularly among those who “probably” won’t get vaccinated.

Next we factor in the numbers from the Census survey into a simple framework for modeling the expected evolution of the pandemic in the US. We find that whether 8% or 18% refuse to get a jab, this is too small to make a material difference in the projected reduction in cases over the remainder of the year. We conclude that anti-vaccination attitudes are unlikely to derail the economic recovery.

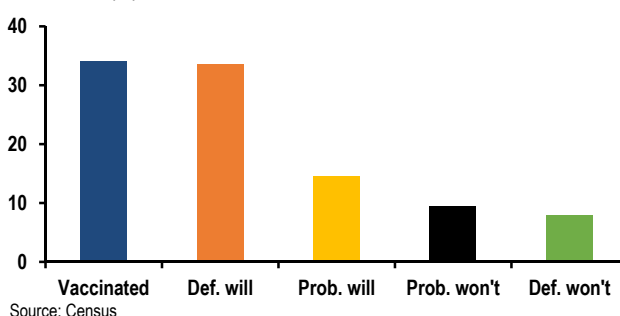
New surveys for a new economy

At the onset of the COVID-19 pandemic in the US, statistical agencies were quick to develop new measures of the economy and household behavior. One of these was the Household Pulse Survey designed and conducted by the Census Bureau.

This survey has collected a wealth of information regarding household finances, employment, mental and physical health, education arrangements, etc. Since January the survey has asked about vaccination status—defined as receiving at least one shot. Encouragingly these data line up well with the CDC data, which are independently measured from the needle side of the transaction. The survey also asks about attitudes toward vaccination by those who haven’t gotten a jab. Those attitudes are divided into four categories: will definitely get a vaccine, will probably get a vaccine, will probably not get a vaccine, and will definitely not get a vaccine. As seen in Figure 1, vaccinated and those who will definitely get vaccinated together are just over two-thirds of the adult population. Those who probably won’t or definitely won’t get vaccinated are less than 18% of the adult population.

Figure 1: Vaccine status and attitudes

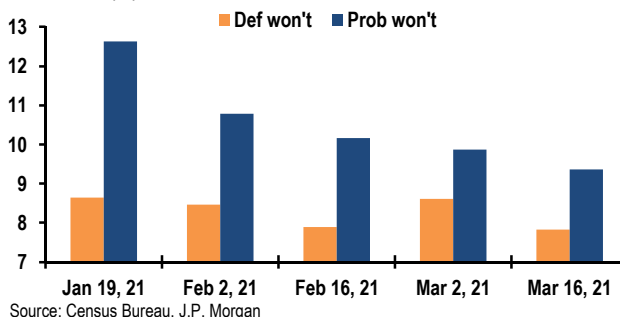
% of over 18 population



The reluctance toward getting vaccinated has been declining over time, particularly among those who say they probably won’t get vaccinated, which has gone down over 3%-pts since January (Figure 2).

Figure 2: Vaccine reluctance over time

% of over 18 population

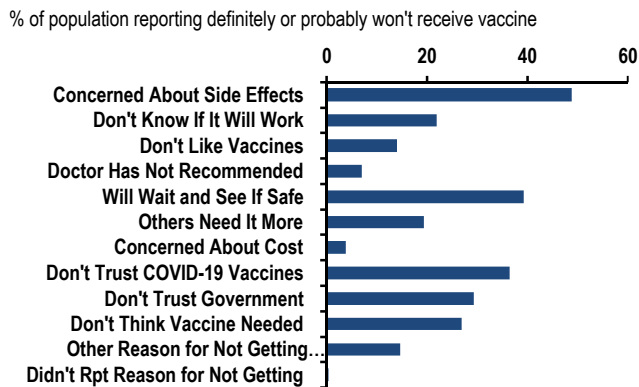


Moreover, since late January the share of the adult population who have either been vaccinated or who indicate they will definitely get vaccinated has increased from 54% to 68%. Some of the increased comfort with the vaccine may be a simple function of time: as more and more people have been vaccinated without pervasive problems concerns have ebbed.

The survey asks about reasons for vaccine reluctance. Those who were “concerned about possible side effects” or planning “to wait and see if it is safe” has dropped from 45% of the population in January to 30% in mid-March.

This suggests that as time goes on vaccine reluctance could ebb further: concern about side effects and wait and see are still the top two reasons given by those reluctant to get a vaccine (Figure 3). Even among the roughly 8% of the adult population that are definite anti-vaxxers, some give reasons for opposition that could change over time. Those who gave reasons that would appear to be fairly entrenched, such as not trusting COVID-19 vaccines, or not trusting the government, amount to about 5% of the adult population.

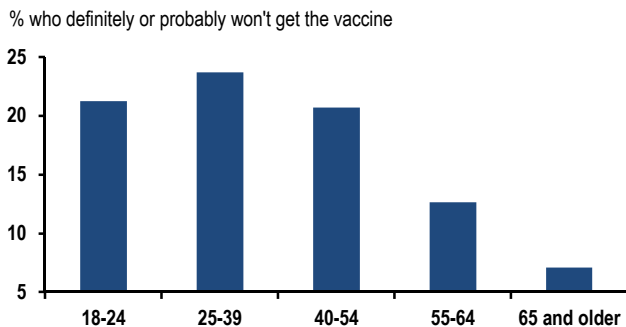
Figure 3: Reasons people definitely or probably won't get vaccine



Source: Census Bureau, J.P. Morgan. Note: multiple responses per individual possible.

Another important finding that comes out of the Household Pulse survey relates to vaccine reluctance by age. Only about 7% of the 65 and over demographic will not or probably will not get the vaccine (Figure 4). Of course, this is the demographic that is most at risk of hospitalization and death due to COVID-19 complications.

Figure 4: Vaccine reluctance by age



Source: Census

What does it mean for the outlook?

Overall, the figures from the Household Pulse certainly look less concerning than those that are snatched from small and potentially unrepresentative samples. But to consider what they mean for the economic outlook, we first need an understanding of what they mean for the course of the pandemic.

In our framework for understanding the pandemic, the effective reproduction number is determined by four things. First, the average number of daily contacts between individuals in the population. Second, the number of days during which infected individuals can infect susceptible individuals. Third, the probability of infection when contact occurs between an infectious individual and a susceptible individual (the secondary attack rate, or SAR). And fourth, the share of susceptible individuals in the population. A vaccine that reduces onward transmission impacts the reproduction number in our framework by reducing the number of susceptible individuals in the population. The magnitude of this impact is determined by the pace of vaccinations and vaccine efficacy. For more details on the modeling see [“Global COVID-19 infections: vaccinations and variants.”](#)

We look at two scenarios relating to vaccine hesitancy: a baseline where 100% of the population eventually gets vaccinated, and one where only the 67% who have already been vaccinated or will “definitely” get vaccinated actually get a jab. We also look at a daily vaccination pace of either 2.0 or 2.5 million jabs. Between 67% or 100% take-up, the difference in cumulative new cases over the remainder of the year is trivially small. The basic intuition for the result is that with a low R starting point, and a very strong pace of vaccination (even with the lower scenario of 2.0 million daily vaccinations), the US should be still well on the road to herd immunity, even with a third of the population opting out.

Of course, there are still important public health benefits from vaccine education efforts (and the trend toward more favorable attitudes toward vaccinations is a sign that those efforts can bear fruit). In any event, it seems that the presence of a non-trivial anti-vaxxer population shouldn't jeopardize what appears to be a very strong economic recovery.

Economic Research Note

Latam: Familiar foes darken a complex fiscal outlook

- **Brazil, Colombia, and Mexico face fiscal challenges over the medium term, varying in degree and cause**
- **Rising debt and funding concerns are more prevalent in Brazil and Colombia; market stress adds constraints**
- **Mexico's public spending reflects shift in policy, which could weigh on fiscal through lower growth potential**
- **As important elections approach, political economy is likely to add another layer of uncertainty in the region**

The historic economic shock delivered by the global pandemic is likely to have lasting repercussions in Latin America. We expect the region's recovery to be incomplete this year, despite unprecedented levels of policy support during 2020 in most of the region.

However, for all that went wrong for these economies, a few threats that loomed large going into 2020, and could have greatly complicated the partial recovery to date, did not come to fruition. The wave of sociopolitical tension in various countries in South America did not boil over again, rather it subsided with the pandemic-related lockdowns, at least temporarily. Last year also was a quiet year for elections in the region.

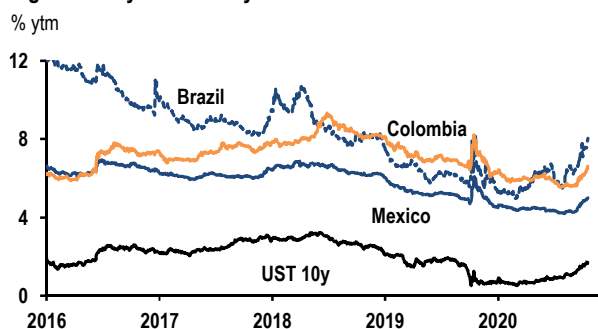
An even greater threat to the recovery was the sharp sell-off in markets in the immediate aftermath of the pandemic's first wave. But market conditions quickly calmed, and, in fact, turned out to be sufficiently benign for most of the region to facilitate a largely seamless financing of much larger-than-expected fiscal deficits. Many countries also were able to deliver unprecedented monetary easing. The superior policy response—extraordinary fiscal support—was however far from costless, as debt rose meaningfully in countries that embarked on aggressive spending.

In this report we look at three countries that have maintained market access—Brazil, Colombia, and Mexico—but entered the crisis with various degrees of already-concerning fiscal and debt trajectories, translating to higher credit premiums and borrowing costs than regional peers like Chile and Peru. The countries' responses to the crisis have varied to some degree, but all three are starting to encounter market pressure to reestablish their fiscal anchors. The higher cost of refinancing larger debt burdens risks exacerbating debt dynamics, a scenario that is likely to lead to increased scrutiny over medium-term sustainability.

The return of familiar foes: US rates and local politics

The threats that were largely absent in 2020 may now add another layer of complication an already-difficult fiscal outlook in 2021 and beyond. The ongoing repricing of US rates has led to significant market volatility, and, for the three countries in question, has started to noticeably tighten government financing conditions, particularly for longer-dated debt and in local bond markets (Figure 1). While rising bond yields take time to seep into overall borrowing costs and debt dynamics, they nevertheless pose medium-term risks that eventually could diminish a country's perceived creditworthiness and feed back in the form of even higher credit premiums and negative expectations.

Figure 1: 10-year Treasury and GBI-EM local bond sub-indices



Source: J.P. Morgan

At the same time, Brazil and Colombia face the political challenge of turning off fiscal support at a time when their respective governments' initial market-oriented agendas are struggling, the economic recovery is incomplete, and the pandemic seems far from over, especially in Brazil. Both countries will hold presidential elections next year, and the anticipation of these cycles may already be affecting policy calculations. Mexico faces another set of issues, more clearly related to the abandonment of growth-enhancing policies before the pandemic, but could intensify after June midterm elections, when the government could see its support increase and become more resolute on a state-centric agenda inconsistent with increasing the economy's potential growth and slowly but surely exacerbating underlying fiscal risks.

The political economy context: The tough road traveled may not get easier ahead

Of course, policy responses do not occur in a vacuum or a laboratory, they are guided by parameters and incentives imposed by each country's respective political context. For starters, the three countries we are examining, like the broader region, are coming from a period of subpar growth since the end of the commodities super-cycle. This backdrop was already prompting pressure for more redistributionary policies,

and in the context of pandemic aftershocks turning off fiscal supports (and Mexico's decision not to turn them on) may have high political costs.

Election cycles also matter, in terms of agenda and the scope for policy response. All three countries elected new presidents in 2018. Brazil's Bolsonaro will stand for reelection in 2022. Colombia's Duque is limited to one term, and his successor will be elected next year. Bolsonaro and Duque are from the right, and came into office with generally pro-market and growth-enhancing policy agendas, but have been challenged by low-growth headwinds and now the pandemic. Mexico's AMLO is approaching the halfway mark of a six-year term. Despite persistent low growth and the dearth of policy support, the popular center-left AMLO has more political capital than his South American colleagues. He also has an eclectic agenda that leans toward state-oriented centralization amid fiscal and monetary caution and a microeconomic agenda that has inhibited private investment incentives. Markets and political observers will look to see if midterm elections reveal AMLO's intentions around legacy issues, and whether fiscal reform might be part of the equation.

Fiscal dangerously at the core

Brazil has the highest debt burden of the three and the lowest credit rating (below investment grade), but unleashed one of the largest fiscal support packages in all of EM in 2020 amounting to 7.1% of GDP, with a corresponding leap in debt. With the pandemic still raging, the authorities' ability to abruptly turn off this support and maintain the markets' perception of a credible fiscal anchor has proven politically challenging. Here, the market reaction in recent weeks and months has come abruptly, forcing the monetary authorities to abandon previous low-for-a-bit-longer forward guidance and front-load a policy rate tightening cycle last week.

The push and pull of the pandemic versus fiscal sustainability is an ongoing odyssey. The Brazilian Congress has recently approved the so-called [emergency constitutional amendment \(PEC\)](#), which gave legal support for the government to renew pandemic-related emergency aid cash transfers to vulnerable families at a cost of about 0.5% of GDP while at the same time implementing tools that would allow an easier fiscal adjustment, such as fiscal triggers, helping assure future accomplishment of the constitutionally mandated spending cap—Brazil's key fiscal anchor.

Even though the emergency PEC brought some advances and the big spending of 2020 was not renewed, market participants have remained concerned in the context of a still-raging pandemic that there could be pressure, mainly from the Congress, for more spending with the risk of breaching the spending cap—possibly even via a new decree of a state of calami-

ty. Such a scenario could open the door for more large outlays this year, further increasing debt and challenging its eventual stabilization. Our base case so far, also confirmed by government officials, is that the four installments of the emergency aid through July and the vaccination rollout could buy time and avoid additional large spending. Notwithstanding some ongoing positive momentum on structural reforms in Congress, in the face of the worsening of the pandemic, the calamity-state scenario remains a concern. The tension about expenditures may remain or even increase ahead, tightening financial conditions amid monetary tightening.

Colombia, on the cusp of losing its investment-grade rating even before the pandemic, saw debt rise, but is attempting to thread the needle to deliver the “optimal” policy response. By this, we mean a strong-as-possible fiscal support package (close to 3%-pts of GDP annually) as long as needed to recover growth and minimize the damage to private sector balance sheets, labor markets, and ultimately potential growth. Colombia has suspended its fiscal rule, and has never intended to pull back fiscal support prematurely, but the market was recently surprised by a projected increase in the deficit in 2021. Without a robust, revenue-enhancing reform to reestablish consolidation after 2022, we think the government risks overestimating the space it has to keep fiscal supports in place, tempting fate at a time when it plans to increasingly rely on markets to finance its heavy spending.

For Colombia, the period of slow growth that followed the collapse of oil prices in 2014-15 led to a more difficult social and political environment. Presidential popularity waned, labor markets were strained (with the influx of Venezuelan migrants adding to pressure), and the original path of fiscal consolidation guided by a fiscal rule took a serious detour, requiring a series of politically costly, but only partial, fiscal reforms that failed to stem the upward trend of debt. In this context, Colombia was hit hard by the wave of social protest that inflamed much of the Andes in 2H19, and issues of inequality and the social contract have led to a more polarized political environment as the country heads toward 1H22 congressional and presidential elections. However, the center-right Duque's inability to stand for reelection may give him a bit more leeway to press for reform in the coming months in order to start raising revenue by 2022. The government is expected to seek approval of a reform that would deliver some 1.4% of GDP in structural fiscal consolidation, even after conceding that some 0.8% of emergency spending will become permanent. However, for that to happen they will need more than 2%-pts of new revenue mainly by extending the VAT and personal income taxes—always politically sensitive measures. While the attempt to pass the reform already in 2Q21 reflects an attempt to avoid the 1H22 political cycle, electoral politics and calculations are already very topical in Colombia, and will certainly

ly raise the risk that the proposal is watered down. [Rating agencies](#)—two of which are poised to knock the sovereign out of investment grade—will be watching closely.

As noted, **Mexico** faces different challenges. In contrast to the other two countries' approaches, AMLO refrained from opening the fiscal spigot, allowing only a modest rise in the debt ratio (as we initially noted in [A tale of two policy approaches](#), Oct 29, 2020). However, the country's fiscal accounts have undergone an important reconfiguration that has driven fiscal spending toward arguably less efficient outcomes. Meanwhile, lack of fiscal support during the pandemic risks eroding potential growth, posing a different concern about fiscal sustainability over the medium term, but a concern all the same.

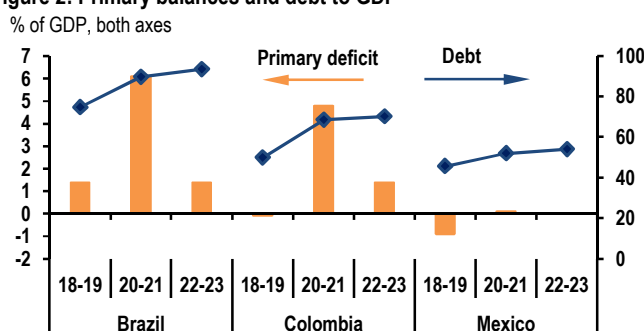
The Mexican government, [even prior to the pandemic](#), had moved away from growth-enhancing reforms in favor of policies geared toward redistribution. There are several signposts of this rotation. One of the most conspicuous is the shift in the composition of public spending nearly three years into the current administration. Having reached 4.7% of GDP during the prior administration, the latest data show public physical investment roughly 2%-pts below that level, whereas subsidies and transfers, which fell markedly in 2017-2018, are back at 3.5% of GDP, just shy of their historical high. At the same time, pension spending has drifted higher quite rapidly to 4.1% of GDP, a record high. While social spending has its own merits, it appears it is currently coming at the expense of the productive spending that could allow it to be sustainable over time. Furthermore, social spending is generally much stickier than capital spending, implying reducing it is likely to prove difficult, even if needed.

Another problem is that capital spending is being earmarked for projects whose return has been called into question, including refineries, the conversion of a military airport into a commercial one, and the Mayan train, to name a few. But perhaps the most relevant of these is the government's intent to expand the role of state-owned oil company Pemex, with the aim to transform it into the driver of economic development at the expense of the private sector. This has proved extremely challenging given the known inefficiencies of the company in many areas, and, importantly also, given its very fragile financial state. This pursuit has exerted significant pressure on the federal government to step up financial support for the company, which is likely to remain in place without a fiscal reform that allows for significant change in the state-owned company's tax regime. Even if a fiscal reform was to deliver such change, we think Pemex's intended outsized role in the economy will prove inefficient and burdensome, not only for growth, but also for the fiscal accounts.

Market reality check? A look at r-g

In addition to the challenges posed in each of these countries by the need to step up fiscal consolidation after the pandemic or, in other cases, to improve the composition of spending, rising US government yields are likely leading the market to question EM's policy response to the crisis, particularly fiscal. Government debt-to-GDP ratios rose in all three countries, with the expansion of primary deficits and debt most notable in Brazil and Colombia (Figure 2). In that environment, countries like the three discussed here likely would get less benefit of the doubt, even if other fundamental drivers of the recovery (improved ToT, US growth, eventual vaccine availability, and larger external buffers) should tend to lessen markets' perception of idiosyncratic fiscal risks.

Figure 2: Primary balances and debt to GDP



Source: J.P. Morgan; Brazil and Colombia are central government, Mexico is public sector

We've already seen a rise in yields across these three countries (Figure 1), which have above-average sensitivity to US rates within the EM space. Usually, the increase in the average cost of funding in a country takes time to feed into broad debt metrics, and of course varies depending on the starting point of debt. However, increasing funding costs not only could put significant pressure on the fiscal accounts (as is the case for Brazil), but also risk creating an adverse feedback loop between tightening financing conditions, fiscal pressures, and the resulting hit to growth.

Table 1: Sensitivity of debt to +100bp shock to funding costs

% of GDP		2020	2021	2022	2025	2029
Brazil	Baseline	89	90	93	91	88
	Rate shock	89	91	94	94	98
Colombia	Baseline	65	67	70	69	71
	Rate shock	65	68	70	71	77
Mexico	Baseline	52	51	51	54	58
	Rate shock	52	51	52	53	61

Source: J.P. Morgan; baseline and rate shock after 2022 are scenarios and not forecasts

To gauge the impact of higher borrowing costs, we estimated the impact on each country's debt burden of a 100bp rise in a government's average funding cost (Table 1). Rather than use our own long-term forecasts in the scenarios in Table 1 for the

primary balance, interest rates and growth, after 2022 (the last year of our forecast horizon), for the sake of comparison we assumed a “steady state” that may be different from what we deem realistic or feasible for these countries over that short time horizon. We also assessed in Table 2 how much potential growth or the primary balance would have to increase (leaving other inputs steady) to offset such a rise in funding costs and return debt to the “baseline” level.

Table 2: Changes to offset funding shock and to return to baseline

± bp change	Brazil	Colombia	Mexico
Growth	152	114	73
Primary balance	138	81	40

Source: J.P. Morgan based on hypothetical scenario described in text, not necessarily forecasts. Growth change in scenario is with primary balance held steady, and vice versa.

In **Brazil**, the debt burden is highly sensitive to an interest rate hike, given the high-debt starting point after the steep increase in government debt in recent years, particularly 2020. Last year, debt surged by about 14%-pts of GDP, reaching nearly 90% of GDP. We assume a potential growth rate of 2.2% and the primary balance that would stabilize debt at 1.2% of GDP. Given those conditions, a rise in funding costs would require that the primary balance increase by 1.4% of GDP or potential growth by 1.5%-pts to offset the effects. A sudden and strong increase in the primary balance seems impracticable given the rigidities in the budget, the recovering economy, and the fact that Congress remains firmly against tax hikes. In this context, the recovery of the fiscal accounts would depend on economic expansion and further measures to contain expenditure growth. However, we do not foresee a strong economic recovery, and the curtailment of spending, for example via the administrative reform, would take time to bear fruit. Thus, the primary balance should remain in the red for several years, putting the likely point of stabilization of debt in Brazil also a few years away. However, there are risks in the short term. In a more uncertain environment, with tighter financial conditions and pressure for more spending due to the worsening of the pandemic, this adjustment may become harder still, underpinning fears that the debt would continue climbing.

In **Colombia**, the sensitivity of the debt burden to funding costs has risen with the debt ratio since the pandemic began. In our projections, we conservatively assume potential growth of 2.8% down from 3.3% previously, reflecting the long-term effects of the pandemic on labor markets and investment. Efforts at fiscal consolidation only begin in earnest in 2022, after which our exercise assumes that Colombia would return abruptly to its 0.7% of GDP debt-stabilizing primary balance the following year, even prior to adding the rate shock to the scenario. Considering that at best we could see a 2.1% primary deficit in 2022, this scenario would force a subsequent fiscal adjustment of almost 3% of GDP—one that is unrealistic given existing spending rigidities, the possible feedback to

growth, and more importantly, political realities. For this reason, we believe any effort to stabilize debt at around 70% of GDP in Colombia will be a [gradual process](#) and depend on growth averaging 3% or higher; the prospects to actually reduce debt seem more distant, however. In any case, debt would rise by roughly 6%-pts of GDP with a 1%-pt funding cost shock. For Colombia's debt to return to the baseline after a 1%-pt funding cost shock, it would have to compensate with a hefty 1.1% increase in potential growth or an additional 0.8% increase in the primary balance.

In **Mexico**, the country with the lowest debt burden going into 2021 at 52% of GDP, the impact of higher rates is much smaller than in Colombia and Brazil, with debt rising roughly 3%-pts more by the end of 2029 than it would have with rates unchanged from our baseline. The marginal increases thereafter become incremental as the debt burden rises. Our baseline projections already assume 1.5% potential growth, down from roughly 2.4% before. The change in potential growth implies an increase in the country's debt burden of roughly 4%-pts of GDP in less than 10 years. In Mexico, it is exactly the potentially adverse feedback loop between tightening funding conditions and weak growth outcomes that creates the largest risks to the fiscal accounts over the medium term, when, absent a shift in fiscal policy or policies that enhance productivity and potential growth, debt dynamics would become unhinged. To put this in perspective, either the primary balance would have to go from 0% to 0.4% of GDP to keep the debt burden unchanged from before the shock or potential growth would have to shift up by 0.7%-pt. In both cases, however, the debt ratio would still be on a slow, but sure uptrend. A slow-burning deterioration might buy time from a credit rating perspective, even if at least one downgrade is likely this year.

Unsteady anchors, unforgiving market?

Brazil, Colombia, and Mexico all face different, but pressing fiscal challenges that, if left unattended, could unhinge their medium-term fiscal anchors, and even run the risk that this process is brought forward by markets that anticipate future deterioration or merely the risk of it. As shown, these challenges can take different forms, with this note analyzing how political constraints, market uncertainty, fiscal largesse, or inefficient spending policies can be mutually reinforcing. In Brazil, fiscal stress appears most acute, the starting point is most challenging, but, relatedly, the shift in the market's risk perception (expressed through rising funding costs) would have a significant impact on debt ratios. Colombia starts from a less challenging position, but still has to show clearer commitment to medium-term fiscal sustainability by cutting spending (which will not occur in 2021) and approving a revenue-enhancing fiscal reform. Finally, Mexico's challenge is to restore higher trend growth or run the risk of poor economic performance eventually weighing on the fiscal accounts.

Economic Research Note

BoE: Thinking about guidance on balance sheet unwind

- BoE is still expanding its balance sheet but intends to lay out guidance this year for the eventual unwind
- Bailey has opened the possibility of shrinking the balance sheet prior to the first rate hike
- This could mean beginning an adjustment in 2H22, although the BoE will want to start by treading carefully

The BoE will spend most of this year completing the £150bn tranche of gilt purchases it announced back in November. Against this backdrop, it may seem premature to talk about shrinking the balance sheet. However, since last summer the Governor has spoken openly about starting this earlier than the BoE had previously suggested, at least in relation to the start of policy rate normalization. As we discuss in this note, the reasons for this shift are quite nuanced, but the possibility of engaging in Quantitative Tightening (QT) prior to the first rate hike has been put on the table.

Recent events have added a little more urgency to this issue: first, the MPC in February asked staff to review the Bank's forward guidance on balance sheet normalization with a decision expected at some point this year, and second the conversation about when to withdraw monetary stimulus has already begun owing to upside surprises on growth and the success of the UK's vaccine rollout.

Our best guess is that the first rate hike will come in early 2023, perhaps a little earlier. If this is correct, the balance sheet could start shrinking late next year. The start of this process will likely be very gradual, with gilt sales following at a later date. We think a balance sheet unwind would start fairly close to the first hike though, in order to ease communication and ensure a smooth start to monetary tightening. A safer option would be to start QT shortly after the first increase in interest rates.

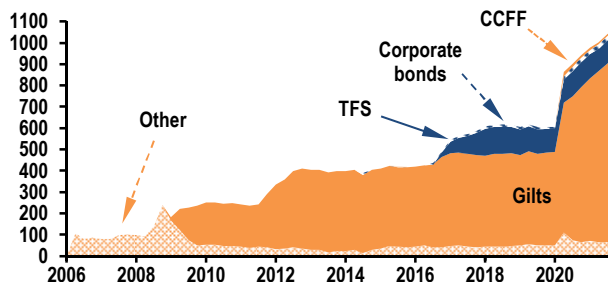
Balance sheet expansion to date

Since the pandemic hit the BoE has announced an extra £450bn of asset purchases. Gilt holdings remain the largest part of the assets it holds, but during the pandemic the BoE again made use of corporate bond purchases and offered cheap term funding for banks (TFS). A new corporate financing facility (CCFF) was also added into the mix, designed to offer cheap short-term loans to larger corporations. All together these pandemic-related measures are expected to almost double the overall size of the BoE's balance sheet to

around £1 trillion by the end of this year, equivalent to almost 50% of GDP (Figure 1).

Figure 1: Assets on the BoE balance sheet

£bn, includes projection from 1Q21 based on announced policy

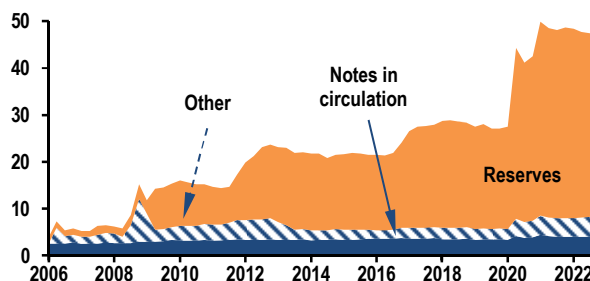


Source: J.P. Morgan, BoE

All these newly created assets have been funded by the creation of newly created central bank reserves (Figure 2), which are expected to reach nearly £900bn by year-end. The size of the TFS and CCFF contributors to the balance sheet is determined endogenously by the demand for these facilities; these loans will expire automatically given they have a specific maturity. The BoE has more direct control over the size of the stock of assets it has purchased, i.e., gilts and corporate bonds. The sheer enormity of its gilt holdings means that a managed removal of balance sheet stimulus would have to involve either stopping gilt reinvestments or selling these assets back to the market.

Figure 2: Liabilities on the BoE balance sheet

% of GDP, includes projection from 1Q21 based on announced policy



Source: J.P. Morgan, BoE

What goes up must partially come down

In its balance sheet guidance to date the BoE has stated that reducing its stock of purchased assets would not occur at least until rates reached a particular threshold from which they could be cut materially in a downturn. The intention here was to help ensure that rates can be used as the primary tool for a future easing in monetary policy. This threshold was originally set at 2% and then lowered to 1.5% in 2018. However, an unwind of the balance sheet has effectively never really been on the agenda as longer-term expectations for the policy rate

have drifted so low. The BoE has never hesitated to use its balance sheet aggressively in times of crisis, but its growing size has drawn some concern over the past year (Table 2).

Table 2: BoE and Bailey comments on balance sheet unwind

When and where	Comment
June 22, 2020 Bailey Bloomberg Op-ed	The role of central bank reserves shouldn't always be taken for granted. Rather than having to keep relying on central bank support for all aspects of the financial system, we need a robust assessment of the latter's weaknesses. The current scale of central bank reserves mustn't become a permanent feature. As economies recover, it's likely that some of the exceptional monetary stimulus will need to be withdrawn, including reducing reserves. Elevated balance sheets could limit the room for maneuver in future emergencies
August 28, 2020 Bailey Jackson Hole	A balance sheet intervention aimed solely at market functioning is likely to be more temporary, in terms of the duration of its need to be in place If the effects of QE are more powerful in crisis states of the world, we may need to ensure that we have enough headroom in the future to repeat it The determinants of QE unwind may therefore be more subtle than previously thought, and the COVID-19 crisis offers a new lens through which to assess its role
February 3 MPC minutes	Against the backdrop of the recent significant expansion in the scale of the Asset Purchase Facility, the committee agreed to ask Bank staff to commence work to reconsider the previous guidance on the appropriate strategy for tightening monetary policy should that be required in the future.

Source: BoE

It is worth emphasizing that an earlier start to QT is not strictly necessary to ensure the stance of monetary policy remains appropriate in the face of surprises. The BoE pays interest on all reserves, which prevents overnight interest rates from dropping much below the desired policy rate even in the presence of large reserves. The BoE has indicated that this “floor” system will remain in place for a while and as the balance sheet is being normalized. If conditions require tighter policy, this means the BoE could still raise rates without requiring any change in the quantity of reserves and with a still large balance sheet. Nevertheless, there could be a few reasons why the BoE is showing more urgency for QT, some of which it has made explicit and others that are more nuanced:

- **Leaving headroom for the next downturn.** Bailey has been so impressed with the BoE’s strategy of “going big” and “going fast” on asset purchases during the pandemic that he wants to ensure there is ample scope to do it again if required by a future crisis. This argument for an earlier start to QT isn’t entirely convincing, however. Even now there is still around 60% of the nominal gilt market that the BoE does not own. And if it does need to recommence QE this is likely to occur in a downturn when there is a supply of new government debt. The BoE’s deputy governor for markets

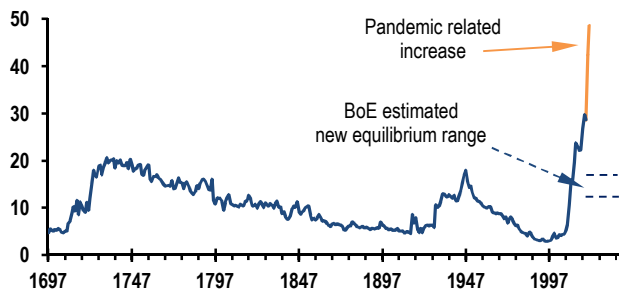
and banking, Dave Ramsden, appears to share this view. Last October he stated, “there is a further £940bn remaining in the market that could potentially be available for purchase.” Since then, the BoE has announced a further £150bn of purchases. But that would still leave £790bn available, and the government has also announced higher-than-expected issuance in the meantime.

- **Dependency on reserves.** Bailey has also made references to the financial sector’s growing dependence on reserves. It’s not immediately clear why this would be an issue. Support schemes such as the TFS and CCFF have automatic expiry dates, and the bulk of reserves created by gilt purchases need not be a concern for the MPC as it pays interest on them. Bailey may be concerned about complacency setting in where financial firms make decisions based on the assumption that elevated central bank reserves will become a permanent feature. He has also referred to the risk to financial markets posed by the role that money markets can play in times of stress, i.e., contributing to market disorder. This is a financial stability issue, however, and it is hard to see how an earlier start to QT would resolve it.
- **Symbolism and credibility.** When the BoE initially started QE in the global financial crisis, it was keen to stress that the action was temporary. It expressed a desire to sell at least some of the assets back when conditions normalized, in order to build credibility and confidence in markets that any similar future actions would also be temporary. This never happened, and perhaps as a consequence the BoE came under stronger criticism during the pandemic for “monetary financing.” MPC members fought back with a number of speeches, and the BoE was able to justify its policy as consistent with meeting the inflation target. But perceptions matter, and actions speak louder than words. It is probably not a coincidence that Bailey’s views about an earlier exit came shortly after the BoE had announced £300bn in asset purchases last year.
- **A longer journey back to normal.** It is reasonable for the BoE to set out a plan for returning the balance sheet to normal, defined as draining reserves to a level that banks would require an equilibrium scenario. This would see the BoE ultimately shift back to a system where banks inform it about the level of reserves they wish to hold on a monthly basis, similar to that used before the BoE started doing QE. While there is no great rush to do this, the balance sheet now looks much bigger than its new equilibrium is thought to be, and so an earlier start would facilitate a more gradual move back to normal. Based on feedback from banks, in 2019 the BoE estimated the equilibrium level of reserves to be £150-250bn, or 7%-12% of GDP—compared to the figure of just under £900bn expected at the end of this year.

After adding in other items, this would imply an equilibrium size for the overall balance sheet of £275-375bn, or 12%-18% of GDP (Figure 3).

Figure 3: BoE balance sheet since the 17th century

% of GDP, equilibrium based on BoE's Hauser speech, July 2019



Source: J.P. Morgan, BoE

- **Fiscal sensitivity to interest rate increases.** The BoE's large holding of gilts—and the partial repayment of coupons it receives to the government—has effectively [increased the sensitivity](#) of government debt interest payments to short-term rates. This is primarily an issue for the government, and unwinding the balance sheet early will not deliver any immediate benefits: the BoE will be handing back less in coupons to the government and a gradual balance sheet adjustment would still leave the public finances sensitive to short-term rate increases initially. However, the BoE will want to minimize the chances of its future decisions over interest rises becoming politicized, and an early start to balance sheet unwind will help to achieve this goal over a somewhat earlier medium-term horizon. Bailey's current term doesn't end until 2028, and so he will have an eye on events further down the road.

Two approaches to faster QT

We would expect the BoE to update its forward guidance on future balance sheet unwind at either the May or the August meetings. Broadly speaking there are two approaches it could opt for:

- **Set a lower bar for rate increases prior to QT.** In a low rate environment the BoE's current guidance implies a balance sheet adjustment will not happen for a very long time, if at all. It could resolve this simply by lowering the bar that rates need to reach from 1.5% to 1%. This lower threshold would not only bring forward the expected start of QT, but would also fit in neatly with its decision to put negative rates into the toolbox from 2H21. In the past, the BoE has carefully calibrated a threshold such that 150bps of easing could be delivered via rates without the need to restart asset purchases in a future downturn. If the BoE now believes it has an extra 50-75bps of room to cut due to NIRP, this would justify a policy rate threshold closer to 1%.
- **Start before or around the time of the first hike.** Bailey's comments indicate the BoE is at least considering the option of going earlier still. This could be done by beginning balance sheet adjustment close to the time of the first hike, which would still meet the BoE's preference for state rather than date contingency. But Bailey has spoken specifically about starting QT before rates begin to rise. This would have the advantage of helping to reach a target level of reserves at an even more gradual and potentially less disruptive pace. However, going too early would have a number of problems, which we discuss below.

Starting early, but not too early

If the BoE is serious about adjusting the balance sheet ahead of the next downturn, we think it will have to go for the second option. The alternative of setting a lower 1% bar on rates before beginning could mean there is no shrinkage in the balance sheet at all until 2025 – i.e. assuming the BoE begins raising rates in early 2023 and tightens at a pace of 50bp a year. Starting QT early would bring the risk of an unwanted overreaction in markets, but the BoE should be able to address this by ruling out asset sales until rates reach a particular threshold level, i.e. relying solely on the suspension of reinvestments at first. Carney already used this approach in 2014: the BoE pledged to maintain the overall stock of asset purchases at least until the first hike in rates, but at the same time stressed that active sales would be deferred until rates had reached a higher level—subject to coordination with the DMO. This would be a hybrid of the two approaches described above. But starting QT *before* the first hike in rates could cause some problems, and yield only limited benefits:

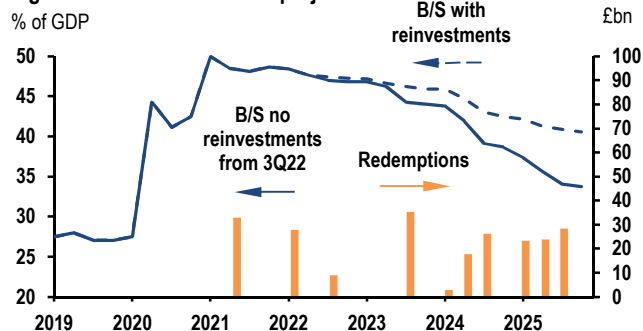
- **Announced purchases have yet to be completed, and the fiscal deficit remains large.** While the BoE is automatically set to taper purchases during this year, the MPC expects to be buying gilts for most of 2021. The BoE would need to design guidance for balance sheet shrinkage that covers the possibility that rates might have to go up early next year. Shrinking the balance sheet prior to the first hike might hence involve being prepared to suspend the current round of purchases prematurely, or contemplate shrinking the balance sheet soon after expanding it. With a still high fiscal deficit for this year, BoE is unlikely to want to go this far.
- **Caution about a market overreaction.** Markets may read an early start to QT as a signal about the timing of the first rate hike. This need not be a bad thing, but it could be confusing. An early unwind in the balance sheet could either imply rates rising sooner (i.e., as a signal the BoE is minded to tighten policy) or later (i.e., as QT is seen to reduce the need for rate increases). Either way the decision could cause some unwanted volatility in expectations over the policy rate. The BoE would probably have to provide more

precise guidance on the timing of the first hike under this scenario. But it may be simpler if it just delayed any balance sheet unwind until shortly after the first hike.

- **Challenges in using QT to fine-tune monetary policy.**

Bailey's comments imply the main purpose of adjusting the balance sheet early would be to manage reserves in the system rather than fine-tune the monetary policy stance per se (rate increases are sufficient for the latter). Using QT to fine-tune policy would likely bring some challenges. The redemption profile of gilts held by the BoE is lumpy, and unless QT began in March of next year a halting of reinvestments would not deliver much change until halfway through 2023 anyway (Figure 4). A program of gilt sales could help to deliver a smoother QT profile, but the BoE is likely to exercise caution on the issue of sales given there is no precedent and through fear of an overreaction if the pace is left open ended. The BoE has also argued in the past that a slow unwinding of the balance sheet is likely to result in only a small monetary tightening if undertaken in a normal market environment, i.e., when there is little friction causing asset price misalignment. These arguments suggest that if the balance sheet were used to begin a tightening cycle, higher rates would probably not be very far behind.

Figure 4: BoE balance sheet projection



Source: J.P. Morgan, BoE

Economic Research Note

Euro area inflation: Speed limit effects are hard to find

- Speed limit effects do not improve our Phillips curve model
- Empirical evidence from 2011 and 2020 also provides little support for speed limit effects
- We continue to expect a gradual move up in underlying inflation; speed limit effects could pose upside risks

As virus-related restrictions are eased, Euro area GDP is set to surge over the summer before growing at a more modest pace from 4Q onwards. In this note, we investigate whether this sharp rise in activity could translate into a sharp rise in underlying inflation through speed limit effects. Our findings suggest limited evidence of speed limit effects in the past within a Phillips curve setting or looking at periods marked by large swings in activity (2011 and 2020). One caveat, however, is that the pickup in activity ahead will be far stronger than in any period under scrutiny in our analysis. Overall, our forecast anticipates a gradual move up in core inflation in the coming quarters, but we acknowledge upside risks linked to speed limit effects and bottleneck pressures. Euro area core inflation will be very noisy. Excluding the impact of temporary factors (described in a recent [note](#)), we expect core inflation to rise from 0.8%oya in 1Q21 to 1.2% in 4Q22 (Table 1).

Table 1: Euro area core inflation forecast and distortions

%oya for core, %-pt for distortions

	J.P. Morgan core forecast	Sales impact	VAT impact	Weight impact	Core ex. Distortions
1Q21	1.3	0.3	0.0	0.3	0.8
2Q21	0.9	0.0	0.0	-0.2	1.1
3Q21	0.9	0.0	0.4	-0.4	0.9
4Q21	1.5	0.0	0.4	-0.1	1.2
1Q22	0.6	-0.3	0.0	-0.3	1.0
2Q22	1.2	0.0	0.0	0.0	1.2
3Q22	1.6	0.0	0.0	0.1	1.5
4Q22	1.1	0.0	0.0	-0.1	1.2

Eurostat, J.P. Morgan

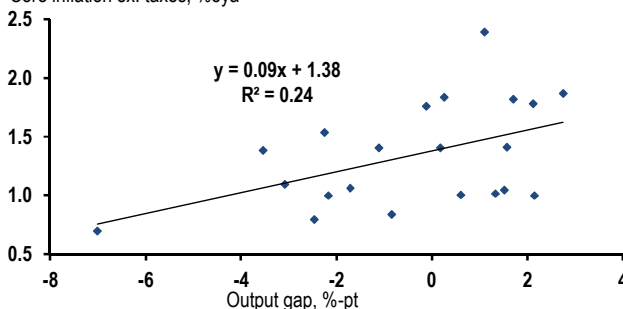
A first look at speed effects

Inflation is linked to the level of slack in the economy, usually measured by the unemployment rate gap (unemployment rate deviation from NAIRU) or the output gap (GDP deviation from potential GDP). Looking at this relationship in a simple form, the response of inflation to the output gap has been statistically significant in the last decade. Figure 1 shows that a 1%-pt move up in the output gap lifts core inflation by 0.1%-

pt. This simple relationship only explains a modest proportion of the variation in inflation (the R^2 is low at 0.2).

Figure 1: Core inflation vs slack

Core inflation ex. taxes, %oya

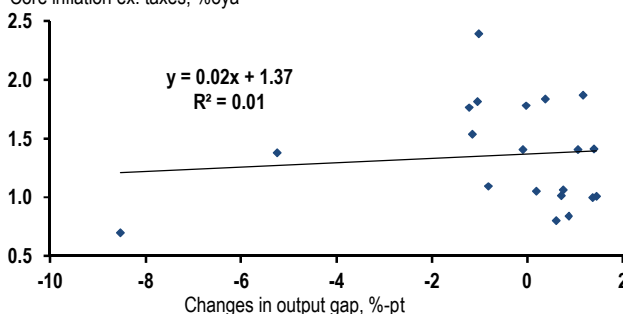


Source: Eurostat, European Commission, J.P. Morgan

In the context of a rapid pickup in activity in the coming quarters it is legitimate to ask whether inflation could respond to changes in slack, rather than the level of slack. This feature is usually called speed limit effects or speed effects. Figure 2 shows that this relationship is not significant at first sight as changes in the output gap do not appear to explain core inflation, with an R^2 close to 0. The same is true when we try to explain changes in core inflation.

Figure 2: Core inflation vs changes in slack

Core inflation ex. taxes, %oya



Source: Eurostat, European Commission, J.P. Morgan

Digging deeper for speed effects

We look further for speed effects in the context of a Phillips curve—a relationship used extensively to model inflation. In this setting, inflation is linked to the level of slack, but the model also takes into account inflation expectations, and a number of shocks (e.g., changes in taxes, the exchange rate and commodity prices). For both headline and core inflation, these variables are significant and explain inflation reasonably well over the last two decades (Table 1).

In addition to these variables, we add changes in the output gap to test for the presence of speed effects. But this additional variable is not significant and does not improve the fit of the model. A separate analysis (not shown here) also shows that a Phillips curve model using the output gap better ex-

plains inflation than a model using changes in the output gap (which again is not significant in the regression). We thus do not find any empirical evidence of speed effects in the inflation process since the creation of EMU. We also tested this hypothesis over various subsamples without success.

Table 2: Phillips curve

Dependent variables is %q/q inflation. T-stats in parentheses

	Headline		Core	
Lag dep. var. (t-1)	0.40	(6.1)	0.33	(2.5)
Output gap (t-1)	0.03	(2.6)	0.02	(3.2)
Output gap change (t-1)	0.03	(0.7)	-0.01	(-0.8)
Inflation expectations (t)	0.12	(4.5)	0.13	(4.8)
Taxes (t)	0.77	(3.3)	0.12	(3.0)
Brent (t)	0.02	(13.8)	-	-
R-square	0.86		0.60	

The output gap and inflation expectations are level variables while the other variables are %q/q. Source: J.P. Morgan

While inflation does not seem to respond to changes in slack on average over the last two decades, according to our model, this does not mean that speed effects could not work over specific periods. We thus look into this issue in the next sections by isolating 2011, a period when GDP growth was strong and associated with a substantial increase in core inflation, and 2020, when GDP collapsed and core inflation plunged to a historic low 0.2%oya.

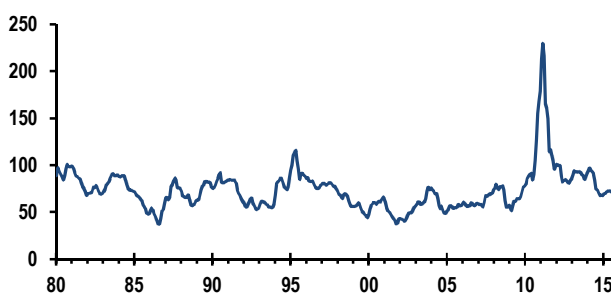
Limited room for speed effects in 2011...

Between 4Q10 and 4Q11, headline inflation jumped by 0.9%-pt to 3.0% and core inflation by 0.5%-pt to 1.6%oya. These sharp increases came on the back of a rapid rebound in activity after the 2008-2009 financial crisis and prompted the ECB to raise its policy rate twice to 1.5%. Looking at the details, the rise in core inflation was driven by both core goods price inflation (up 0.5%-pt to 1.2%oya) and services price inflation (up 0.5%-pt to 1.9%). Regarding activity, GDP expanded by 2.9% ar on average between 2Q10 and 1Q11, before growth stabilized in subsequent quarters. As a result, the Euro area output gap narrowed from -3.5% in 2009 to -2.2% in 2010, and then printed at -1.1% in 2011.

According to our analysis, the impact of speed effects was likely limited during this period. Indeed, our Phillips curve model (which only uses the output gap) explains half of the rise in core inflation during this period as slack diminished and inflation expectations increases. Looking at the details, the miss to a large extent reflected clothing price inflation, which likely was boosted by cotton prices. The link between the two is loose historically but cotton prices spiked an unprecedented 170%oya in early 2011 (Figure 3). We control for this factor with a dummy variable in our Phillips curve model (Figure 4) and the overall fit during this period, as a result, is very good.

Figure 3: Cotton prices

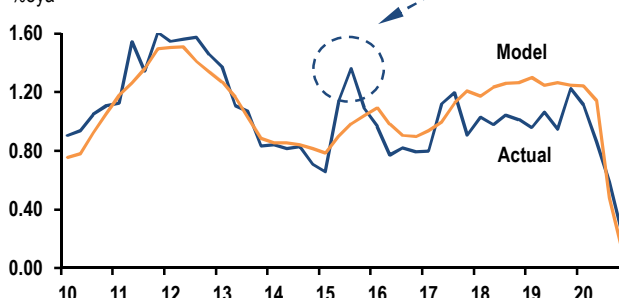
\$, cents per pound



Source: IMF, J.P. Morgan

Figure 4: Euro area HICP core inflation

%oya



Source: Eurostat and J.P. Morgan

The rise in cotton prices in 2011 was particularly acute and commodity prices more generally rose sharply at the time, while global growth was strong and broad-based across countries. A strong pickup in activity globally can thus channel through to Euro area core inflation via commodity prices, which could be interpreted as a speed limit effect. In the past, rising oil prices, driven by global forces, also impacted energy-related core items such as transport services.

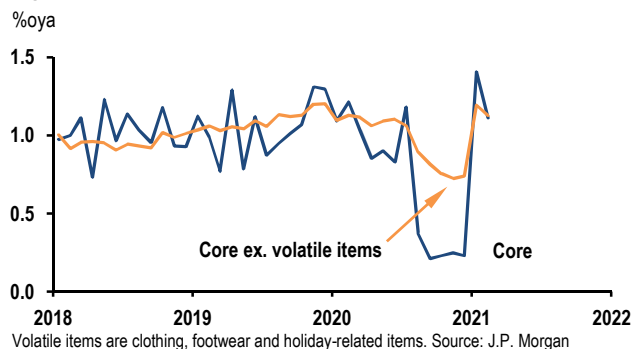
...and sticky core prices in 2020

The swings in activity last year were unprecedented. Euro area GDP plunged 27% ar on average in 1H20 and then surged 29% in 2H20. These swings left 4Q20 Euro area GDP 5% below the level in 4Q19. In this context, the 1%-pt fall in core inflation from 4Q19 to 0.2%oya 4Q20, its lowest level ever, does not look surprising.

However, the move down in core inflation was closely related to two factors. First, the fall in core inflation was concentrated in the volatile holiday-related price category. Excluding these items and the volatile clothing category core inflation would have only declined to 0.7%oya (Figure 5). Second, the fall in core inflation also reflected the temporary German VAT cut from 19% to 16% between July and December. We estimate that this impact temporarily lowered Euro area core inflation by 0.4%-pt. Thus removing holiday items and controlling for

the German VAT cut leaves underlying inflation remarkably sticky despite the huge fall in activity. This leaves little room for speed effects.

Figure 5: Euro area core inflation



Expecting a gradual pickup in core

A caveat in our analysis is that the expected pickup in activity (8.5% ar in the Euro area between 2Q21 and 3Q21 and 6% ar globally) is significantly stronger than in any past period under scrutiny in our analysis (we omit the rebound after the 1H20 plunge in activity). Our empirical analysis may thus offer limited guidance for the future.

Overall, we find limited evidence for speed limit effects and project that Euro area underlying inflation will move up gradually as slack diminishes and ECB survey-based inflation expectations gradually return to their pre-virus level. However, the possibility of speed limit effects creates upside risk around our forecast. In particular, strong demand in holiday-related items (airfares, accommodation services, and package holiday prices in particular) could prompt significant price increases if bottleneck pressures materialize.

Putting aside speed limit effects, the path ahead for Euro area core inflation is going to be [very noisy](#) as a number of temporary forces will be at play in the coming quarters, including the German VAT cut, the delayed winter sales period, and changes in the HICP weights. Excluding the impact of temporary factors, we expect core inflation to rise from 0.8%oya in 1Q21 to 1.2%oya in 4Q22 (Table 1).

Economic Research Note

ECB: Going upstream and downstream with PEPP

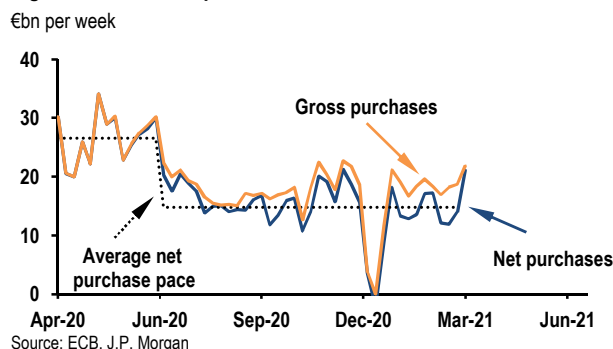
- **ECB has sent stronger signal though a "significant" increase in PEPP purchases**
- **Many question still open; higher staff forecasts in June could justify return to prior PEPP purchase pace**
- **But, Governing Council has purposefully given itself a lot of discretion, reflecting internal disagreements**

At its last policy meeting, the ECB committed to a "significant" increase in its PEPP purchases for three months. Even though we expected the ECB to successfully signal a commitment to maintaining "favorable financing conditions," the ECB was more explicit about higher purchases than anticipated. This has created clearer differentiation in the global reflation theme, although the Euro area's modest inflation outlook was already pointing to this. At the same time, there are some open questions. The ECB purposefully left open the definitions of "financing conditions" and "significant," it did not comment clearly on how the strategy sits alongside the persistent inflation gap in its own staff projections, and it remains unclear on what basis the ECB will decide in June whether to maintain the faster PEPP purchase pace.

Is it "significant"?

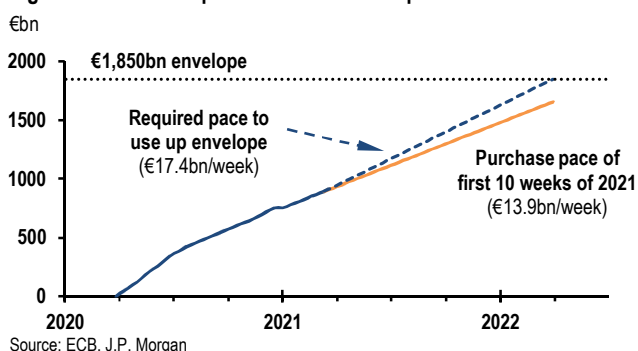
In the run-up to the last ECB meeting, the weekly data on actual PEPP purchases showed no response to the increase in bond yields. As President Lagarde suggested during the post-meeting press conference, the Governing Council had not actually agreed on what "maintaining favorable financing conditions" meant in practice and hence how to respond to the market sell-off. The agreement on a "significant" increase in purchases is therefore showing up in the weekly data only now. These showed net purchases of €21bn and gross purchases of €21.9bn (Figure 1).

Figure 1: ECB PEPP purchases



It is worth putting last week's outturn in the context of the ECB's €1,850bn PEPP envelope, which is available through 1Q22. Since the start of this year, PEPP purchases have been running at €13.9bn per week, which would leave €200bn unused at the end of 1Q22 (Figure 2). To use up the envelope, the ECB must average €17.4bn per week in the coming months. While last week's €21bn outturn is higher than this, it would have been €17.9bn if redemptions had not been unusually low last week. We suspect purchases will settle at €16-€18bn per week, which our strategy colleagues think will suffice to differentiate in markets between the Euro area and the US on the global reflation theme. While this pace only puts the ECB back on track to use up the PEPP envelope by March 2022, the signal that the ECB is sensitive to and willing to respond to increases in bond yields is more important.

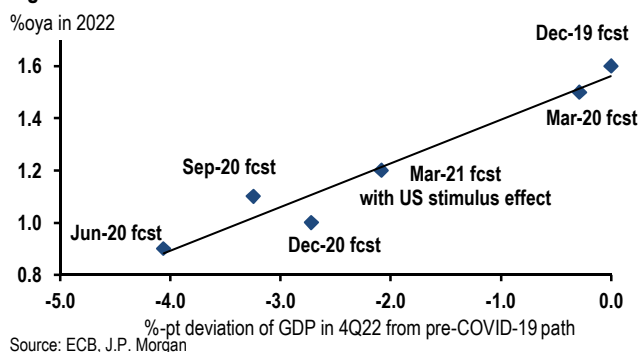
Figure 2: ECB PEPP purchases and envelope



How might the staff forecasts change?

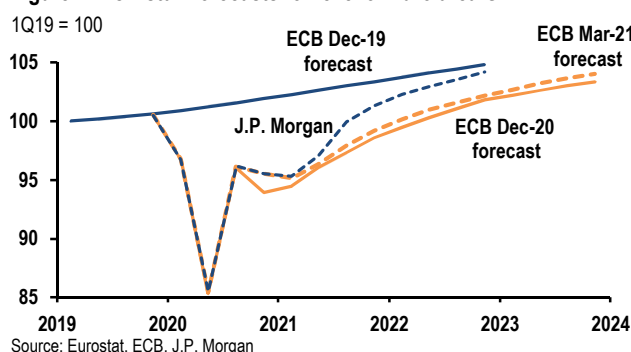
Whether a faster PEPP purchase pace will be maintained beyond 2Q21 will depend a lot on how the ECB staff forecasts for inflation change in June. Of course, much is still likely to change in the next three months, but changes in the output gap at the end of the forecast horizon explain almost all of the changes to the medium-term inflation projection (Figure 3). In particular, if GDP is revised up by 1%-pt, the inflation forecast is revised up by 0.2%-pt.

Figure 3: ECB staff forecast for core inflation 2022



Hence, unless there are surprises in the incoming core inflation data, which affect the starting point of the forecast and carry forward via persistence effects, most of the revisions will be driven by changes to the level of GDP. While lockdowns have been extended, the ECB staff had already anticipated this. In fact, the ECB staff's growth forecast looks very cautious relative to the J.P. Morgan forecasts this year (Figure 4), even if we factor in the staff's assessment of the spillovers from US fiscal stimulus, which did not make the cut-off for the March projections. The staff thinks that the US stimulus would add 0.1%-pt to the 2023 inflation forecast, which could lift core inflation to 1.4%oya. Beyond this, the stronger growth bounce we expect in 2Q21 and 3Q21 will not be reflected in the published GDP data until well after the June meeting. But, any revision is still likely to be upward at this point.

Figure 4: ECB staff forecasts for level of Euro area GDP



This is art, not science

Even though we can try to anticipate changes to the ECB staff's inflation forecast and even though the ECB has offered some insight into how it thinks about "financing conditions," the ECB has purposefully avoided giving any quantitative targets for different financial market variables. This gives a lot of scope for the narrative to change.

In fact, we suspect the ECB stumbled into announcing a "significant" increase in PEPP purchase almost by accident. Last year's debate between those arguing for a more aggressive response (e.g., Lane) and those willing to accept a slower return to target (e.g., Schnabel) was won by the latter. Putting the focus on "maintaining favorable financing conditions," i.e. focusing on the duration rather than intensity of the policy support, was a convenient narrative that also took attention away from the projected inflation undershoot. But, when the recent market sell-off tested the ECB, it seemed that the Governing Council had not agreed on the level of financing conditions it wanted to "maintain" (or even on the definition of financing conditions). In the end, the ECB managed to send a credible signal to markets and created differentiation in the global reflation narrative, but only after a period of indecision.

One media report after the last ECB meeting suggested that the debate about whether to interpret the recent rise in bond yields as good news or as unwarranted was not fully settled. Instead, the Governing Council could only agree to step up the purchases, without a clear target for yields. Of course, longer-term bond yields may be higher today without the ECB's signal. But, looked at over a longer period, yields are very low and the links to actual lending rates are loose (Figure 5), while TLTROs and very low short-term interest rates already provide a huge amount of support to bank lending. Similarly, real interest rates are also near decade lows, despite the recent sell-off in nominal yields (Figure 6). It is therefore unsurprising that some ECB policymakers were tolerant of some increases in bond yields.

Figure 5: Euro area bank lending rates to real economy

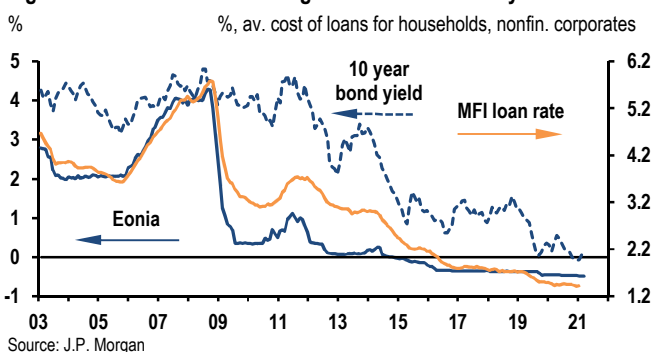


Figure 6: Euro area bond yields



Ultimately, the ECB has a lot of discretion in how it decides to "spin" the data and hence how it sets the pace of PEPP purchases. Given the very large inflation gap over its forecast horizon, a dovish spin can be justified very easily and at any time. But, the ECB has often behaved as a growth targeter, with shifts in policy often driven by changes in growth risks. As a result, the strong pickup in GDP growth we expect in 2Q21 and 3Q21 may affect views about the appropriate level of bond yields even as inflation remains very low. This context dependence makes it difficult to gauge at this stage what the ECB will decide about its PEPP purchases in June.

Economic Research Note

Italy: large fall in debt burden thanks to the ECB stance

- **Italy's government debt will remain close to 155% of GDP this year**
- **But the cost of running high government debt is much lower with low-for-long rates and asset purchases**
- **Average cost of Italy's government debt to fall below 2% while Eurosystem holds near 30% of the total**
- **For Italy, the fiscal benefit from ECB asset purchases is very large, about 2.5% of GDP per year**
- **The interest cost of a 150% debt ratio is now lower than the comparable cost of a 60% ratio in 2008**

Sharply higher government debt ratios will be one of the most troublesome legacies of the pandemic, globally and regionally. When it comes to debt sustainability in the Euro area, Italy—with its outsized government debt expected to reach around 155% of GDP also this year—is the long-standing elephant in the room of the imperfect architecture of the Euro area. Nevertheless, we have highlighted before that policies and the institutional background is materially different from the past (especially when compared to the Euro area sovereign crisis a decade ago) and that several reasons suggest smooth deleveraging is a manageable task over the next five years or so.

A crucial factor behind our assessment is the policy environment characterized by both low-for-long rates and large-scale asset purchases. The combination of these two forces materially reduces the fiscal burden linked to high government debt, and does so by more the higher the debt ratio and the higher the average funding cost. Both conditions apply conspicuously in the Italian case.

In a companion piece we discussed how the [low-for-long rates](#) environment creates a persistent favorable growth-funding cost differential ($r-g < 0$), a key condition underpinning the notion of a smooth pullback from the debt overhang. Here, we complement that analysis by looking at the role of asset purchases, and we construct a simple metric to measure the gain from the current monetary policy environment.

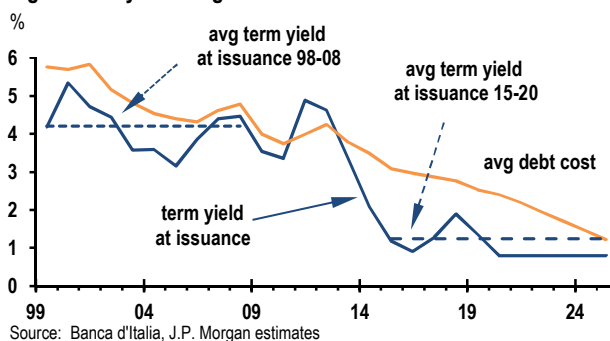
According to our calculations, the fiscal benefit for Italy from the ECB monetary policy stance is huge; we conservatively estimate it above 2.5% of GDP annually. Strikingly, Italy's interest expenditure with more than 150% of GDP in debt is now lower than the comparable cost of a below-60% debt ratio in 2008.

Average rate on Italian debt set to fall below 2%...

The ECB's incremental shifts over time toward unconventional monetary policy had a dramatic impact on Italian sovereign funding costs over the last decade (Figure 1). The average marginal yield, i.e., the yield at issuance for the average debt maturity, has fallen by 300bp from the first decade of the EMU to 2015-20. Due to PEPP, the average term funding cost of Italian debt has fallen to 0.8% in 2020, despite government debt reaching an unprecedented 155.6% of GDP. Since the beginning of the year, the refinancing cost of Italian debt has hit new historical lows, falling below 0.3%, notwithstanding tensions in global and regional bond markets.

The average cost of Italian government debt is set to fall further in the next few years, given the steady policy environment the ECB has committed to until inflation sustainably returns to the target. We calculate the average cost of government debt is set to decline to around 2% in 2022 (Figure 1), well below any estimates of "normal" nominal GDP growth—even beyond the near-term growth surge we project for 2021-22 as the European economies normalize after COVID-19.

Figure 1: Italy cost of government debt



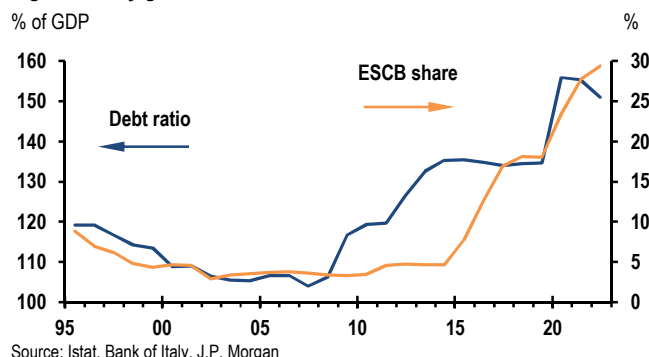
...as Eurosystem holdings of Italian government bonds rise near 30% of Italian debt

Through the Eurosystem (ESCB), the ECB began to purchase government debt securities in March 2015, even though only 10% of those purchases are subject to risk sharing (i.e., are held directly by the ECB), whereas the rest remains on national central banks' balance sheets. Italian debt climbed to €2,569 billion or 155.6% of GDP in 2020, and we expect it to hover around 155% in 2021, before starting to fall quickly from 2022 onwards.

In 2020, the ESCB's net increase in holdings of Italian debt totaled €167bn, slightly above record borrowing needs at 9.5% of GDP, pushing up the ESCB share of government debt outstanding to 23.4% from 18%. We estimate the share of

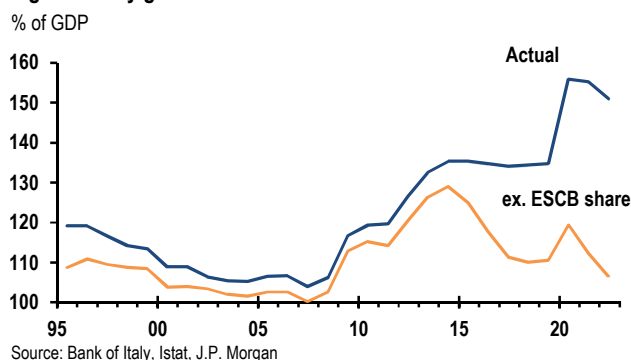
Italian government debt held by the ESCB for monetary policy purposes will rise to about 28% of the total by the end of 2021, and to 29.5% in 2022 (Figure 2). This estimate is conservative, in our view, as it only assumes the exhaustion of the PEPP €1,850 billion envelope by March 2022, as per the currently announced plans, as well as APPs continuing at €20 billion per month in 2022.

Figure 2: Italy government debt and ESCB share



As a result, the Italian debt ratio falls from 155% of GDP to 112%, when measured net of ESCB purchases of Italian government securities for monetary policy purposes (Figure 3). On this metrics, Italy's government debt is not higher than its average during the first decade of the EMU.

Figure 3: Italy government debt ratio



Asset purchases and risk premium: Debt relief and the implicit guarantee extension

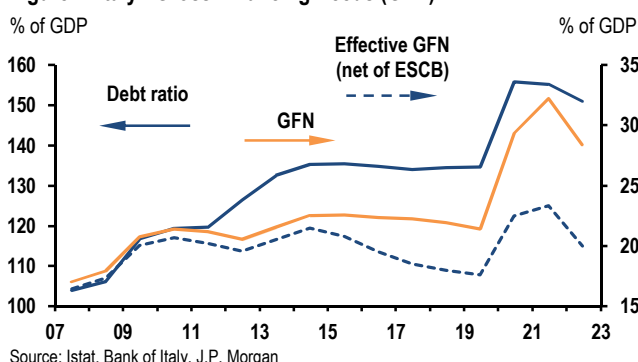
In any jurisdiction, asset purchases lower the market risk premium embedded in government bond yields, but nowhere as much as in an imperfect currency union such as the Euro area, with its mix of monetary policy centralization and fiscal policy decentralization and lack of a comprehensive common budget.

In essence, central bank asset purchases allow the Treasury to substitute term funding with short-term funding (in the limit, at overnight maturity) borrowing via a liability of the country's national central bank's (NCB). In the Euro area, interest

rates on government securities differ due to country risk, but the policy rate (i.e., the reserves deposit rate at times of NIRP) is the same for all countries. It follows that the higher the country risk (which is, inter alia, a function of the amount of debt), the higher the economic benefit of asset purchases. In practice, asset purchases bring sovereign liabilities back within the perimeter of the enlarged government sector balance sheet. In fact, there is a circular flow in debt servicing cost, whereby the interest paid by the government to the central bank is then (net of some operational costs) returned to the Treasury as dividends. Hence, the expansion of the central bank's balance sheet via asset purchases is in itself debt relief, proportional to (i) the differential between market funding costs (the average maturity yield at issuance) and the policy rate, and (ii) the size of the debt stock.

But, beyond this simple mechanical effect, the ECB asset purchases reduce the perception of default risk and avoids self-fulfilling solvency crises, because: (i) the ECB extends the risk-free properties of its liabilities to the treasury's debt (at least partially and temporarily, depending on the credibility and the duration of the central bank's commitment) and (ii) is a stable market participant (on the secondary market), which by definition reduces gross financing needs and, therefore, roll-over risk (Figure 4). In sum, with asset purchases the ECB performs the role of buyer of last resort (BOLR), extending, at least partially and temporarily, an implicit risk-free guarantee on the liabilities of the affected sovereign.

Figure 4: Italy - Gross Financing Needs (GFN)



The unique power of the central bank to coordinate market perceptions from good to bad equilibria was last vividly demonstrated back in March 2020, when the ECB introduced PEPP to fix an earlier communication mistake. Major tensions in sovereign funding markets fueled by doubts about the ECB commitment to its BOLR function dissolved within a matter of days.

Summing up, for highly indebted countries (i.e., countries with comparatively higher risk premia) large-scale asset purchases such as the combination of PEPP and APP: (i) prevent-

loss of market access, (ii) maintain unfettered market access even during periods of outsized issuance (as in the COVID-19 crisis), (iii) mechanically reduce the interest cost burden due to the redistribution of dividends to the Treasury, and (iv) sharply lowers risk premia (i.e. government bond spreads).

A calibration for Italy

A simple calibration of the joint impact of the low-rates environment together with asset purchases shows that even conservative estimates of the economic benefit for a high-debt country are very large. Applying our assumptions to Italy yields a figure of 2.5% of GDP per year.

Our approach is to estimate the economic benefit in the form of fiscal benefits, i.e., the interest burden relief enjoyed by a sovereign. This measure is attractive for its simplicity, because all else equal (i.e., for a given growth rate and debt level), it is equivalent to the reduction in the primary surplus required to keep debt stable at a given level (a concept sometimes referred to as fiscal space). In other words, our measure means that—all else equal—1% of GDP flow relief allows a sovereign spend 1% of GDP more (or tighten 1%-pts less) and still keep the debt ratio unchanged. In practice to make the estimate operational, we need to estimate a measure of the effective average interest rate on sovereign bonds (i.e. after taking into account the flow of interest from the central bank to the government), and compare it to an adequate counterfactual. In doing so, we use some simplifying assumptions to compute a steady state measure of actual debt relief, and then resort to ECB studies about the impact of its monetary policy stance on risk premia to create a reasonable lower bound counterfactual.

First, we assume that the ESCB purchases have the same average maturity of government debt, which allows us to assume that the central bank's holding of government debt pays the average interest rate on debt in a given year. This assumption is fairly mild, given that asset purchases have been running for six years and that the ECB policy (including its reinvestment strategy) is based on a market neutrality principle. According to our calculations, this assumption would hold exactly for Italy in the first half of 2022, given an average debt maturity slightly above seven years. We also assume that the ESBC returns 95% of the interest earned on government debt to the Treasury, with 5% retained to pay for operational costs.

We forecast Italian debt will be near 155% of GDP this year, with a 2.2% average interest rate. This means that the Italian government spends 3.3% of GDP to pay interest on its liabilities, but that the ESBC returns to the treasury the earnings on its government securities held for monetary policy purposes (worth close to 30% of the total). According to our assump-

tions, this savings is worth 0.9% of GDP per year, and 1.1% of GDP if we take into account the negative 50bp deposit rate. The effective average interest rate drops from 2.2% to 1.6%, or to 1.5% when taking into account negative rates.

This mechanical measure does not take into account the impact of the central bank's policy stance in reducing the Italian term premium, but only direct debt relief from the central bank's holdings and low rates. The ECB itself provides estimates to run this exercise. Back in 2019, when taking stock of its quantitative easing program, ECB research estimated that the compression in sovereign yields due to its policies was around 100bp at the 10-year maturity for a representative bond, with a confidence interval between 70bp and 130bp (Eser et al., 2019; Hammermann et al., 2019). The impact of asset purchases was estimated to be particularly large at about 50% of the total impact at long maturities.

In line with these studies, we assume that Italy's average debt cost would have been 1%-pt higher without the ECB's unconventional monetary policy. Against this counterfactual, our estimate of debt relief rises to a much bigger 2.4% of GDP, or 2.6% of GDP when considering negative rates. The estimates from the ECB refer to a synthetic Euro area yield curve, and also pre-date the COVID-19 crisis and the inception of PEPP. Hence, we consider this figure a conservative lower bound, useful to fix ideas and run comparisons.

A lot of debt is no longer what it used to be

Even a prudent estimate shows that the combination of low-for-long rates and large-scale asset purchases yields outsized benefits to a high-debt country like Italy. This is particularly true when considering that this benefit is a flow, i.e., it recurs each year (although it decreases over time as the debt to GDP ratio and the average funding cost keep falling). For instance, the grants envelope of the recovery fund is worth a total of 4.5% of GDP for Italy, over a period of around five years, which means that two years of debt relief is worth more than the whole recovery fund transfer.

In fact, our analysis shows that the effective interest expenditures on Italy's government debt stock in excess of 150% of GDP is as low as 2.2% of GDP. Back in 2008, before the Global Financial Crisis, Italian debt expenditures totaled nearly 5% of GDP, with much lower debt close to 105% of GDP and a far higher average interest rate at 4.8%. According to this measure, the current flow cost of government debt is less than half what it used to be more than a decade ago. In 2008, Germany, with a debt ratio below 65%, paid interest expenses worth 2.4% of GDP. In this sense, government debt at 155% of GDP is now as expensive to run as debt below 60% of GDP back in 2008.

Economic Research Note

Brazil: Debt financing will be tested in April

- After a rough time in early 2020, demand for government bonds increased and eased funding pressures
- The curve steepened last year amid BCB cutting rates and without QE, but 2021 saw a large flattening
- April could again be challenging given record-high bonds maturing and tighter global financial conditions

About a year ago, the beginning of the COVID-19 crisis and uncertainty about its impact on the economy raised local fears with a severe impact on Treasury bond auctions. Demand for bonds dried up. As global conditions became more accommodative and the Treasury and the BCB managed to take action and reduce jitters, Brazilian markets stabilized somewhat from mid-2020 onwards, as high levels of deposits seem to have underpinned banks' bonds holdings. However, even with the Treasury shortening the average maturity of bonds offered over the remainder of the year, a steep yield curve signaled funding challenges last year.

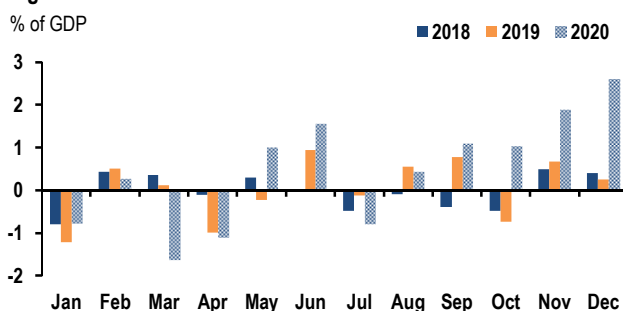
As we started 2021, both the debt and the amount of bonds maturing in the short term rose sharply. For example, in April about BRL350bn (4.7% of GDP) in bonds mature, a record high, pushing borrowing needs above 5% of GDP. We see two main risk factors that can cause debt financing difficulties in the next months: the recent worsening of the pandemic and the slow progress on vaccination, which could increase pressure for more fiscal spending at the same time it constrains revenues; and tightening global financial conditions for countries like Brazil.

At this point it seems that the Treasury could manage the hurdles this year and meet its borrowing needs, particularly as there are important one-off buffers—it collects the financial surplus from existing public funds to pay debt, as determined in the recently approved emergency constitutional amendment, and from the early payment of BNDES debt with the Treasury, which can help to rebuild the cash cushion to weather more turbulent times. Also, as cash deposits in the banks remain high, rising benchmark interest rates could increase the demand for bonds. However we note that the situation is far from comfortable, as fiscal accounts will continue to demand significant efforts to maintain credibility. Of note, our strategy team [has recently looked into the April maturity](#).

From the calm into the storm last year

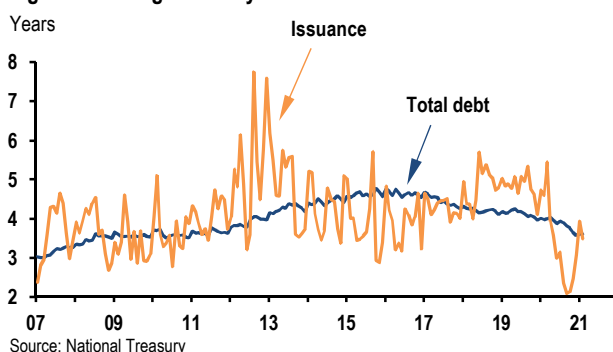
By March 2020, market participants were becoming concerned about the impact of the pandemic on the economy, thus uncertainty and risk aversion increased. This led to a [sharp tightening of financial conditions](#), decreasing liquidity and reducing demand in Treasury auctions in March and April, as seen by the large negative net issuance in those months (Figure 1).

Figure 1: Net issuance



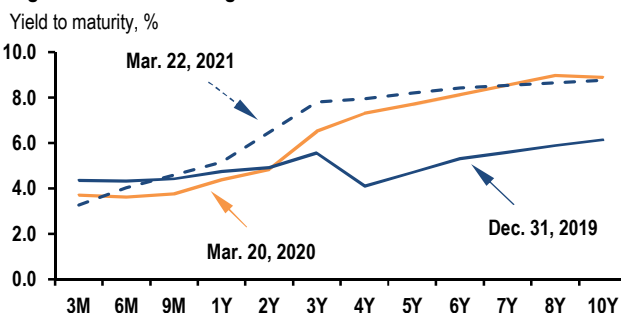
Source: National Treasury, J.P. Morgan

Figure 2: Average maturity



Source: National Treasury

Figure 3: Brazil sovereign curve



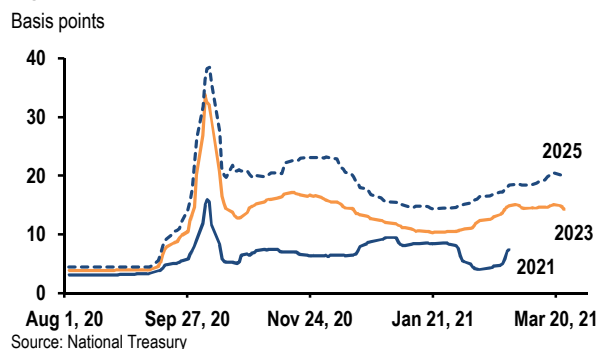
Source: Bloomberg Finance L.P.

The pressure on the Treasury auctions led to buybacks and a shortening of the maturity of debt issued, particularly during 1H20 (Figure 2). Even though the Treasury increased the maturity of issuance in 2H20, it remained lower than in the years before the pandemic, probably because markets were already

showing signs of increasing jitters, such as the steepening of the yield curve (Figure 3) and abnormally high premiums in the LFT market.

The rapid growth of deficits from 2Q20 and constraints on issuing debt took a hit the Treasury's cash balance, increasing fears about the sustainability of the fiscal accounts. Ultimately, the fears about fiscal solvency fed through to risk premia, which reached historic highs in late 3Q and early 4Q (Figure 4). Joint actions by the Treasury and BCB reduced the premium in the LFT market, but concern about the fiscal outlook remains relatively high, while short-term interest rates fell to record-low levels last year.

Figure 4: LFT risk premia

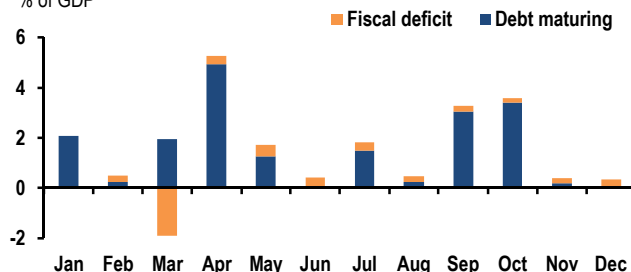


The steeper yield curve reflects doubts about the soundness of fiscal policy, on top of still extraordinarily low interest rates, and remains a concern. [As our recently published debt dynamics exercise shows](#), the debt path is sustainable only for moderate real interest rates up to 3%. Also, we note that, unlike other central banks in EM countries like India and Indonesia, the BCB did not intervene in the bonds markets, implementing the [QE program allowed by the war budget from last year](#).

Looking ahead: High borrowing needs in April, September, and October

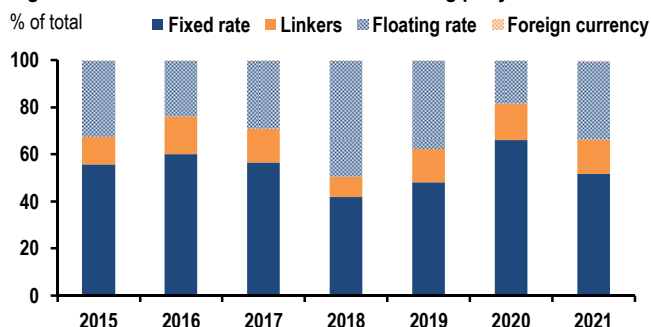
Looking at the dispersion of the annual numbers during the months of 2021, we note that a large amount of debt matures next month (Figure 5), followed by other large amounts in September and October. Specifically, we see an increase in the share of floating-rate bonds maturing this year—the record-low SELIC rate may have had an impact on rollovers of floating-rate bonds last year—closer to what was seen in 2018 and 2019, at the expense of a fall in the share of fixed-rate bonds (Figure 6). So we expect some market focus on both the high amounts maturing and the types of bonds that will need to be rolled over.

Figure 5: Forecasted federal government borrowing requirement
% of GDP



Source: National Treasury, J.P. Morgan
With BRL160bn from financial surplus of funds in 2020 as revenues in March 2021

Figure 6: Distribution of domestic debt maturing per year



Also, even though we expect fiscal deficits to be concentrated between April and July, when the government will pay the emergency aid and bring forward the payment of year-end bonuses for retirees, while revenues should remain constrained by the impact of the pandemic. As a result the amount of debt maturing in some months far surpasses net expenditures. This should raise this year's borrowing need to almost BRL1.5 trillion, or 18.1% of GDP (Table 1, following the Treasury's methodology as shown in its [Annual Borrowing Plan](#)), well above the amount last year. This will also require a certain degree of market confidence so that the Treasury can finance itself without undue stress.

Table 1: Federal government borrowing needs

BRL billion			
Breakdown	Treasury forecast 2020	Executed 2020	JPM forecast 2021
Debt maturing	928.4	1,032.4	1,458.2
Guaranteed debt payment	11.8	13.3	9.5
Other budget expenditure	376.3	623.8	512.2
Budget revenues*	-248.6	-386.7	-432.5
Borrowing needs	1,067.9	1,282.8	1,547.4
as % of GDP	13.2%	15.9%	18.1%

Source: National Treasury, J.P. Morgan
* - includes BRL160bn from financial surplus of funds

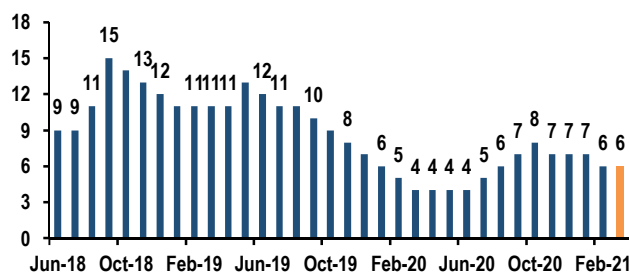
Won't be easy, but no need to panic (yet)

Even counting the new round of emergency aid, there will be [a significant reduction in spending as most of the pandemic-related fiscal measures implemented in 2020 were not renewed](#). The cost of COVID-19-related measures last year totaled BRL524.0bn (7.1% of GDP) and should drop to BRL84.5bn (1.0%) this year, including the emergency aid and vaccines. And revenues should also suffer somewhat with the uncertain recovery and effects of the pandemic, so we forecast this year's central government primary deficit at 3.1% of GDP, down from 10.0% in 2020, but still high by historical norms.

On top of that, the Treasury's liquidity cushion—the amount of Treasury's cash earmarked to pay debt—had fallen to a historical low by the end of 2020 (Figure 7), even after the transfer of BRL352bn from the gains on international reserves by the Central Bank in late August, taking the Treasury's liquidity cushion to about eight months of debt maturing.

Figure 7: Liquidity cushion coverage of domestic debt

Months



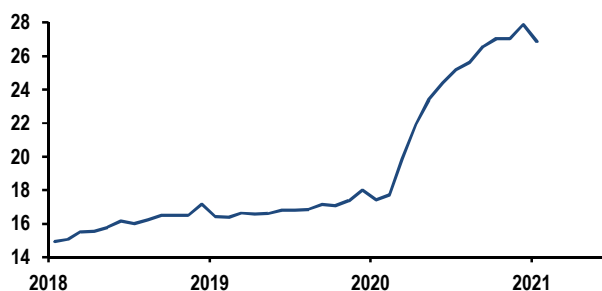
Source: National Treasury, J.P. Morgan

This cushion decreased marginally in recent months but has remained relatively steady since the beginning of 2021, at around six months of debt service, even with the early payment of BRL38bn of the BNDES debt with the Treasury in February. The government also expects another BRL62bn from BNDES this year and the emergency constitutional amendment approved earlier this month should allow the government to use the about BRL160bn financial surplus of public funds last year to pay debt this year. With that, we think the Treasury should be able to maintain a liquidity buffer to pay debt, above the Treasury's minimum threshold of three months, even if it is less comfortable than in the recent past.

Bank deposits surged to record highs last year (Figure 8) and private savings grew (Figure 9), likely boosted by the emergency aid cash transfer programs. Rising deposits probably underpinned the slight increase in banks' bond holdings in 2Q20 (Figure 10). The high level of bank deposits amid increases in benchmark interest rates by the central bank should help sustain demand for bonds.

Figure 8: Deposits

% of GDP



Source: BCB, J.P. Morgan

Figure 9: Savings rate

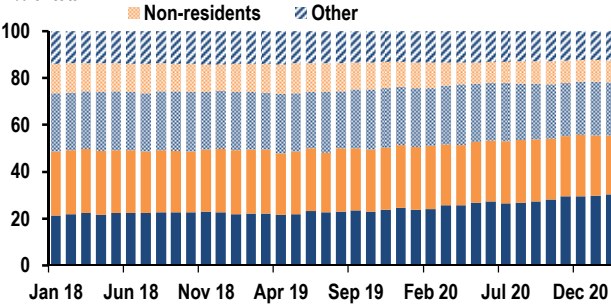
12-month sum, as % of GDP



Source: IBGE

Figure 10: Holders of domestic debt

% of total



Source: National Treasury

In sum, the Treasury's numbers and our estimates show that there will be periods ahead when the credibility of the policy mix will still be tested and that, despite lower spending this year, Brazil still may not be in a safe place. The Treasury will still count on specific financial transfers to increase its cash to pay debt and reduce the need to roll over maturing bonds, but it would still need to retain market confidence so that the stress of 2020 does not return. Otherwise it could experience even greater funding difficulties than last year. The worsening of the pandemic, the slow rollout of vaccination, and eventual pressure for more spending are factors that could keep concerns elevated ahead.

United States

- **February weakness is widespread but likely temporary**
- **Initial claims have trended lower alongside declining COVID-19 case count**
- **Spending jumped in March, especially once stimulus checks went out**
- **We forecast 650,000 nonfarm jobs added in March with unemployment rate declining to 6.0%**

February reports continued to look weak for the most part but we still believe that severe winter weather depressed activity during the month and that this weakness was temporary. Most importantly, consumer spending dropped 1.2% in February, but we also saw declines in new and existing home sales and durable goods orders and shipments during the month. Timelier reports have been more favorable, and many surveys firmed between February and March. Initial jobless claims filings also have been trending down lately, and the latest weekly reading was the lowest since the surge in filings early in the pandemic. Meanwhile, our [Chase consumer card tracker](#) points to a jump in consumer spending late in March once people started receiving stimulus payments associated with the American Rescue Plan.

Overall, we believe that the recovery has been progressing this year as the burden from COVID-19 fades, with activity being aided by the stimulus packages passed in December and March, and dented only temporarily by February's severe weather. GDP source data likely will be volatile throughout the first quarter, but we think our forecast for 5.0% real GDP growth in 1Q is tracking pretty well at this point.

Next week's March employment report will be another important marker in tracking the recovery. Last month's report was more upbeat than a lot of other February indicators but we think that the BLS's employment data were spared the brunt of the impact from the bad weather because of the timing of the relevant reference week and the definitions used to characterize people's employment status. We forecast that job growth strengthened in March, with nonfarm employment increasing 650,000 and the unemployment rate declining from 6.2% to 6.0%. March auto sales data released next week will also will help us track consumer spending, and we will get additional March surveys and more GDP source data for February.

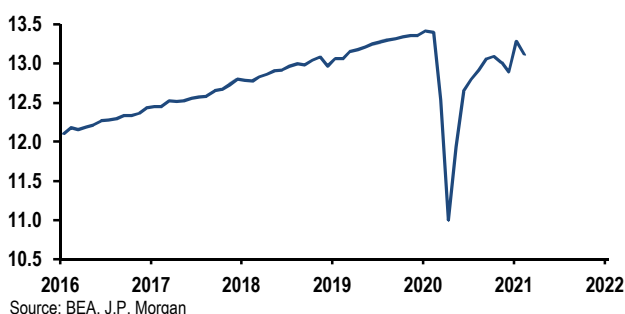
A February to forget

Most of the main economic indicators that we track weakened in February. The unusually bad weather likely depressed activity during the month and we also think that consumer

spending was due to moderate after the rush of income that came in January from stimulus checks paid out early that month. Supply chain issues associated with parts shortages also likely weighed on the manufacturing sector. And housing data likely were due to cool off after a period of robust activity late last year. So while monthly changes between January and February generally have been downbeat, we think the broader recovery remains on track. The weather appears to have normalized in March and another round of stimulus checks distributed late in the month should help boost activity. Furthermore, vaccines continue to be distributed around the US and many areas are proceeding with varying degrees of "reopening."

Figure 1: Real consumer spending

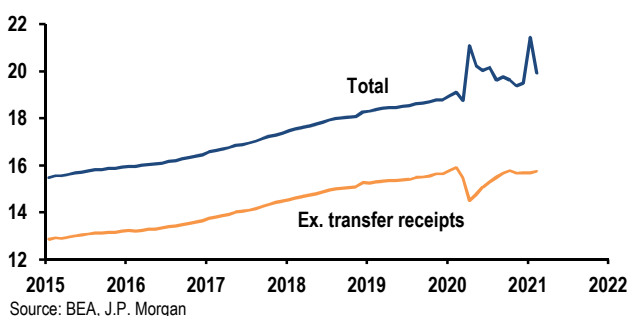
2012\$ tr, saar



Getting into some of the February numbers, real consumer spending fell 1.2% during the month (Figure 1) while personal income plunged 7.1%. Stimulus checks associated with the December stimulus package were mostly paid out early in January, and changes in transfer receipts led to the jump in income in January and the drop in income in February (Figure 2). With spending likely jumping in March (aided by the stimulus payments made late in the month) we think real consumer spending is on track for strong growth overall in 1Q through the monthly volatility—we forecast that real consumption will jump 9.3% saar during the quarter.

Figure 2: Personal income

\$tr, saar



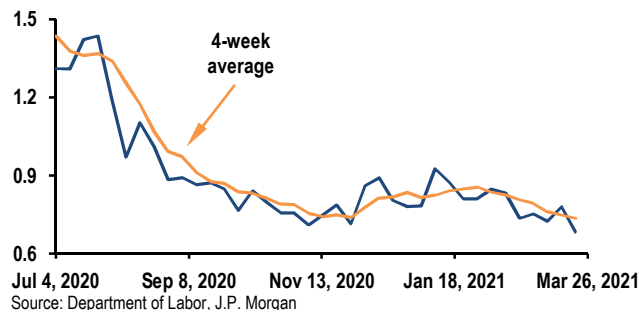
In other reports this week, we saw February drops in new and existing home sales and durable goods orders and shipments (including the key underlying details related to core capital goods). Even with the February weakening, we think that we are still on track to see solid growth in both residential investment and business equipment spending in 1Q. That said, growth rates for these series likely will moderate relative to the robust 4Q figures.

A much stronger March

As discussed above, there are several reasons to discount the weakness in many of the February indicators. We likely will see notable improvement in many indicators between February and March and the March data are off to a good start so far. On the labor market, initial jobless claims filings have been trending lower lately and the latest weekly reading was the lowest since the surge early in the pandemic (Figure 3). And as discussed in this week's *Focus*, consumer spending looks to have jumped in March, particularly late in the month following the distribution of the economic impact payments associated with the American Rescue Plan.

Figure 3: Initial jobless claims in regular state programs

Mn, sawr

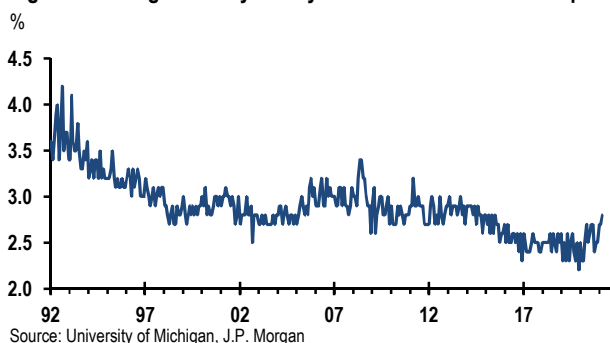


March survey data also marked improvement in a variety of sectors relative to February. The headline indexes for Markit's PMI surveys rose in March, reaching strong levels, and many regional business surveys also moved up in March. The University of Michigan consumer sentiment index reading in March was the highest since the drop reported early in the pandemic. That said, consumer sentiment is still notably lower than the pre-virus trend.

Inflation expectations

The University of Michigan survey also showed firming in the longer-term inflation expectations of consumers. While these expectations remain low by broad historical comparisons, the March figure from the survey was the highest reported since July 2015 (Figure 4).

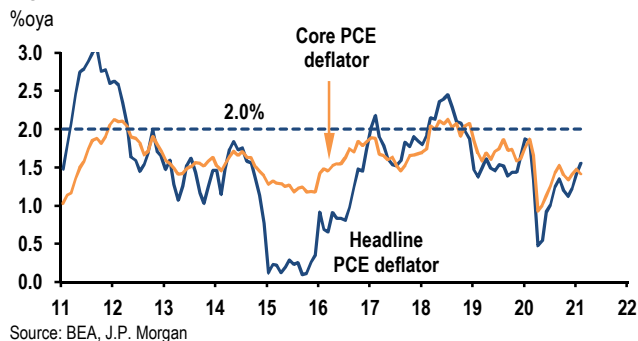
Figure 4: Michigan survey: 5-10 year-ahead med. inflation expect.



It will remain important to monitor a range of different inflation expectations measures because we think low and steady inflation expectations will keep underlying inflation anchored despite what we expect to be a strong period of growth in the coming months and quarters. The FOMC has signaled that it is willing to look through a temporary inflation overshoot, with its recent SEP forecasts showing rates on hold at the zero lower bound for the next few years despite a forecast for core PCE inflation to come in at or above the 2% PCE inflation target over the forecast horizon (2021-2023) according to the median estimate.

The main PCE price indexes continued to run below the FOMC's inflation target through February, with the headline index up 1.6%oia and the core index up 1.4%oia (Figure 5). In the next few reports, over-year-ago comparisons will be made with the very weak inflation readings reported early in the pandemic, and we think these "base effects" will lead to a temporary jump in over-year-ago inflation rates—core PCE price inflation likely will hit 2.3%oia in the April report (re-released in May) before moderating subsequently.

Figure 5: PCE price indexes



Data releases and forecasts

Tue Consumer confidence

Mar 30 10:00am	Sa				
		Dec	Jan	Feb	Mar
Conference Bd index		87.1	88.9	91.3	<u>98.0</u>
Present situation		87.2	85.5	92.0	
Jobs plentiful		21.0	20.0	21.9	
Jobs hard to get		22.9	22.5	21.2	
Labor mkt diff		-1.9	-2.5	0.7	
Expectations		87.0	91.2	90.8	

We forecast that the Conference Board consumer confidence index increased 6.7pts to 98.0 in March. We have seen several other measures of consumer confidence pick up lately and consumers likely have benefited from vaccine distribution and the recent round of stimulus check issuance. We therefore think that the Conference Board confidence index will firm in March.

Wed ADP employment

Mar 31 8:15am	Change from month ago, sa				
		Dec	Jan	Feb	Mar
ADP		-75	195	117	
BLS private payroll		-274	90	465	

Last month, the ADP employment report showed that the private sector added 117,000 jobs in February while the BLS data showed that private employment jumped 465,000 during the month. The first prints of the monthly changes in the ADP data generally have been under-shooting the first prints of the related BLS data since the recovery began, but the size of the divergence has varied significantly from month to month, making it hard to take a clear signal from the ADP data to predict the BLS data.

Wed Pending home sales

Mar 31 10:00am	sa, unless noted				
		Nov	Dec	Jan	Feb
Total (mn, ar)		125.8	126.4	122.8	<u>114.2</u>
%ch m/m		-0.9	0.5	-2.8	<u>-7.0</u>
%oya (nsa)		16.1	23.1	8.2	<u>3.1</u>

We believe the pending home sales index fell 7.0% in February. Many housing indicators weakened noticeably between January and February and we think that the severe winter weather in February depressed activity in the housing market. With this in mind, we forecast a drop in the upcoming pending home sales report.

Jobless claims

Thu Apr 1 8:30am	Thousands, sa				
		New claims (wr.)		Continuing claims	
		Wkly	4-wk avg	Wkly	4-wk avg
					Jobless, %
Jan 16 ¹		875	842	4785	5002
Jan 23		812	850	4691	4907
Jan 30		812	857	4558	4752
Feb 6		848	837	4520	4639
Feb 13 ¹		834	827	4419	4547
Feb 20		736	808	4337	4459
Feb 27		754	793	4142	4355
Mar 6		725	762	4134	4258
Mar 13 ¹		781	749	3870	4121
Mar 20		684	736		
Mar 27		<u>700</u>	<u>723</u>		

1. Payroll survey week

We forecast that initial jobless claims in regular state programs increased 16,000 to 700,000 during the week ending March 27. While claims likely will keep trending lower over time as the drag from COVID-19 fades and the labor market recovers, we think the data will be volatile from week to week and we believe that some of the drop in claims reported for the week ending March 20 will be reversed in the upcoming report.

Thu Markit manufacturing PMI

Apr 1 9:45am	Index, sa				
				Flash	Final
				Mar	Mar
Composite ¹		59.2	58.6	59.0	<u>59.2</u>
New orders (30%)		59.9	57.4	60.8	
Output (25%)		60.5	57.8	54.5	
Employment (20%)		54.7	56.3	55.1	
Sup. del. (15%, inv.)		33.4	27.1	25.4	
Stks of purch (10%)		51.3	47.2	49.5	
New export orders		54.0	53.6	52.7	
Backlogs of work		52.4	55.0	62.0	
Output prices		60.4	60.6	69.0	
Input prices		65.1	73.2	74.9	
Stocks of finished goods		48.1	48.2	43.8	
Quantity of purchases		54.8	53.7	55.9	
ISM-weighted composite ²		58.6	58.3	58.9	

1. Weights in parentheses

2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

We believe the headline composite for the Markit manufacturing PMI will be revised up from 59.0 to 59.2 between the flash and final March reports, representing a 0.6pt increase over the final February reading. With vaccine distribution continuing and many locations relaxing restrictions on activity over time, we think that activity in the manufacturing sector will keep firming.

JPMorgan Chase Bank NA

Michael Feroli (1-212) 834-5523
michael.e.feroli@jpmorgan.com

Daniel Silver (1-212) 622-6039
daniel.a.silver@jpmorgan.com

Jesse Edgerton (1-212) 834-9543
jesse.edgerton@jpmchase.com

Economic Research**Global Data Watch**

March 26, 2021

J.P.Morgan

Apr 1	Sa				
10:00am		Dec	Jan	Feb	Mar
	Overall index	60.5	58.7	60.8	<u>61.5</u>
	Production	64.7	60.7	63.2	
	New orders	67.5	61.1	64.8	
	Inventories	51.0	50.8	49.7	
	Employment	51.7	52.6	54.4	
	Supplier deliveries	67.7	68.2	72.0	
	Export orders	57.5	54.9	57.2	
	Imports	54.6	56.8	56.1	
	Prices	77.6	82.1	86.0	

We forecast that the ISM manufacturing survey's headline composite increased 0.7pt to 61.5 in March. Much of the March survey data that already have been released show improvement relative to February and we think that the ISM survey data will behave similarly.

Thu	Construction spending				
Apr 1	%m/m, sa				
10:00am		Nov	Dec	Jan	Feb
	Nominal	1.4	1.1	1.7	<u>-1.5</u>
	Private	1.5	1.5	1.7	<u>-1.3</u>
	Residential	3.1	3.8	2.5	<u>-1.0</u>
	Nonresidential	-0.7	-1.9	0.4	<u>-1.8</u>
	Public	1.1	0.1	1.7	<u>-2.0</u>

We estimate that nominal construction spending fell 1.5% in February. There are already plenty of February reports suggesting that bad weather depressed activity during the month and we think that weather also weighed on construction spending in February. We look for declines across the main subcategories within the report, with private residential spending declining 1.0%, private nonresidential spending falling 1.8%, and public spending dropping 2.0%.

Thu	Motor vehicle sales				
Apr 1	Millions, saar				
		Dec	Jan	Feb	Mar
	Light trucks and autos	16.2	16.6	15.7	<u>16.4</u>
	Imports	3.6	3.8	3.7	
	Domestics	12.6	12.8	11.9	
	Autos	2.7	2.7	2.4	
	Light trucks	9.9	10.1	9.5	

We look for light vehicle sales of 16.4mn saar in March. We believe the drop in sales for February was at least partially related to severe winter weather during the month, and with weather normalizing in March, we expect much of the February decline to be reversed.

Apr 2	Sa				
8:30am		Dec	Jan	Feb	Mar
	Payroll employment				
	(ch, m/m, 000s)	-306	166	379	<u>650</u>
	Private payrolls	-274	90	465	<u>670</u>
	Goods-producing	82	-13	-48	<u>105</u>
	Construction	47	1	-61	<u>75</u>
	Manufacturing	35	-14	21	<u>20</u>
	Service-providing	-388	179	427	<u>545</u>
	Private service-providing	-356	103	513	<u>565</u>
	Wholesale trade	15	14	4	
	Retail trade	30	46	41	
	Professional services	159	85	63	
	Temporary help	62	96	53	
	Education/health	-29	-26	44	
	Leisure and hospitality	-498	-25	355	
	Government	-32	76	-86	<u>-20</u>
	Average weekly hours	34.7	34.9	34.6	<u>34.8</u>
	Index, hrs worked (%m/m)	-0.6	0.7	-0.5	<u>1.1</u>
	Hourly earnings (%m/m)	1.0	0.1	0.2	<u>0.2</u>
	(%oya)	5.5	5.3	5.3	<u>4.6</u>
	Unemployment rate (%)	6.7	6.3	6.2	<u>6.0</u>
	Participation rate (%)	61.5	61.4	61.4	

We forecast that nonfarm employment increased 650,000 in March while the unemployment rate declined two-tenths to 6.0%. We think that the combination of fiscal stimulus, warmer weather, and improving virus-related conditions will generate strong growth in the economy that should lead to a pickup in job growth. And while the February employment data were probably spared some of the worst effects of the bad weather during the month due to the timing of the relevant reference period and the way that the BLS defines employment statuses, there are some signs that the February data were impacted by the weather (like the 61,000 drop in construction employment). We also think that normalizing weather could help boost the March employment data. Many March indicators have picked up relative to February, and we expect similar firming in the employment data.

With the leisure and hospitality sector one of the areas most impacted by virus-related developments, we think that related job growth will be strong in March. But we look for a pickup in hiring on net in other sectors as well. For the broad subcategories of the establishment survey, we forecast that private employment jumped by 670,000 in March, with goods-producing sectors adding 105,000 jobs and the service sector adding 565,000. We think the trend in government employment will remain weak (through some volatile monthly readings), and we forecast that public sector employment declined 20,000 in March.

For other details of the establishment survey, we forecast that the average workweek increased from 34.6 to 34.8 hours. We think the decline reported for February was weather-related, and we look for much of this drop to be reversed in March. With our expectations for strong job growth and a longer workweek, we think that the aggregate hours index jumped 1.1% in March. The recovery in some low-wage sectors could limit average hourly earnings growth, and we forecast that average hourly earnings increased 0.2% in March.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

JPMorgan Chase Bank NA

Michael Feroli (1-212) 834-5523
michael.e.feroli@jpmorgan.com

Daniel Silver (1-212) 622-6039
daniel.a.silver@jpmorgan.com

Jesse Edgerton (1-212) 834-9543
jesse.edgerton@jpmchase.com

Economic Research
United States

March 26, 2021

J.P.Morgan

For the household survey, we expect strong employment growth along with a tick up in participation. For the main related aggregates, we believe the unemployment rate declined from 6.2% in February to 6.0% in March while the participation rate rose from 61.4% to 61.5%. We also forecast that the employment-population ratio rose from 57.6% to 57.8%.

than the underlying trends. Going through some of the numbers, total orders fell 1.1% in February while overall shipments dropped 3.5%. For the important core capital goods series, orders declined 0.8% in February while shipments dropped 1.0%. Durable goods inventories did have a strong month in February, with a 0.7% jump reported for the month following declines in December and January.

Review of past week's data

Existing home sales (Mar 22)

	Dec	Jan	Feb	
Total (mn, saar)	6.65	6.69	6.66	6.20 6.22
%m/m	0.9	-0.6	0.2	-7.3 -6.6
%oya nsa	24.0	15.8	15.5	8.8 8.7
Months' supply (nsa)	1.9	1.9		2.0
Single-family	1.8	1.8		1.9
Median price (%oya)	12.6	14.4	14.0	15.8

Existing home sales fell 6.6% to 6.22mn saar in February, disappointing consensus expectations but coming out very close to our forecast. We think severe winter weather depressed sales in February, so the latest figures likely exaggerate any underlying softening going on in the housing market. But pending home sales (a leading indicator of existing home sales) already had been trending lower before the bad weather and existing home sales fell in three of the four reported regions between January and February, so we think existing home sales also are cooling off following a robust run due to some other factors apart from the weather.

New home sales (Mar 23)

	Dec	Jan	Feb	
Total (000s, saar)	885	919	923	948 860 775
%m/m	-5.6	7.2	-4.3	3.2 -2.1 -18.2
%oya nsa	-20.4	26.5	-18.6	23.7 -11.1 1.6
Months' supply	-4.4	3.9	-4.0	3.8 4.8
Median price (%oya)	-7.2	8.2	-5.3	7.4 5.3

New single-family home sales dropped 18.2% to 775,000 saar in February. This was a much larger decline than anticipated by us and the consensus, although the sales data for November, December, and January were revised up, offsetting a good amount of the downside surprise reported for February. The February drop in sales was most likely caused in part by severe winter weather during the month. Although with sales falling across all four reported regions, there likely were other factors at play, and we think some cooling in the data was inevitable following the strong levels of activity reported for recent earlier months.

Durable goods (Mar 24)

%m/m, sa

	Dec	Jan	Feb	
New orders	1.2	-3.4	3.5	-0.2 -1.1
Ex transportation	1.8	-1.3	1.6	-0.7 -0.9
Nondef cap. gds ex air	1.5	-0.4	0.6	-0.0 -0.8
Shipments	2.1	-1.9	1.7	-2.0 -3.5
Nondef cap. gds ex air	1.1	-1.8	1.9	-0.5 -1.0
Inventories	-0.2	-0.3		0.7

Many of the details of the February durables report disappointed our forecast and were even more of a downside surprise relative to the consensus expectations. Severe winter weather and supply chain issues likely depressed activity in February; so, the latest figures are probably more downbeat

Markit manufacturing PMI (flash)(Mar 24)

Index, sa

	Jan	Feb	Mar	
Composite ¹	59.2	58.6	60.0	59.0
New orders (30%)	59.9	57.4		60.8
Output (25%)	60.5	57.8		54.5
Employment (20%)	54.7	56.3		55.1
Sup. del. (15%, inv.)	33.4	27.1		25.4
Stks of purch (10%)	51.3	47.2		49.5
New export orders	54.0	53.6		52.7
Backlogs of work	52.4	55.0		62.0
Output prices	60.4	60.6		69.0
Input prices	65.1	73.2		74.9
Stocks of fin. goods	48.1	48.2		43.8
Quantity of purchases	54.8	53.7		55.9
ISM-weighted comp. ²	58.6	58.3		58.9

1. Weights in parentheses

2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

Markit services PMI (flash)(Mar 24)

Index, sa

	Jan	Feb	Mar	
Business activity	58.3	59.8	60.5	60.0
Incoming new business	55.8	57.7		58.3
Employment	51.1	50.4		52.4
Business expectations	73.5	66.3		71.6
Input prices	66.9	70.1		72.7
Prices charged	58.3	58.5		61.2
Backlogs of work	50.8	52.5		49.8

The PMIs improved somewhat in their flash March reports, although the gains were not quite as large as anticipated. The headline composite for the manufacturing survey increased from 58.6 to 59.0 while the headline activity index for the services survey rose from 59.8 to 60.0. The latest figures were strong and suggest that the economy has picked up momentum recently, although it wasn't all good news within the latest surveys. Some of the details were mixed, and the manufacturing survey showed weakening in its measures of output and employment between February and March. And the supplier delivery times measure continues to boost the headline composite for the manufacturing survey, but this likely is at least partially due to supply chain issues rather than being a reflection of more favorable conditions in the sector.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Gross domestic product (Mar 25)

JPMorgan Chase Bank NA

Michael Feroli (1-212) 834-5523
michael.e.feroli@jpmorgan.com

Daniel Silver (1-212) 622-6039
daniel.a.silver@jpmorgan.com

Jesse Edgerton (1-212) 834-9543
jesse.edgerton@jpmchase.com

Economic Research
Global Data Watch

March 26, 2021

J.P.Morgan

%ch, q/q, saar, unless noted

	Adv 4Q20	Sec 4Q20	Thi 4Q20	
Real GDP	4.0	4.1	4.2	4.3
Final Sales	3.0	3.0	3.1	2.9
Domestic final sales	4.4	4.4	4.7	4.4
Consumption	2.5	2.4	2.5	2.3
Equipment	24.9	25.7	25.7	25.4
Intellectual property	7.5	8.4	8.4	10.5
Nonres. structures	3.0	1.1	0.7	-6.2
Residential investment	33.5	35.8	35.9	36.6
Government	-1.2	-1.1	0.9	-0.8
Exports	22.0	21.8	22.5	22.3
Imports	29.5	29.6	29.9	29.8
Inventories (ch, \$bn)	44.6	48.0	44.1	62.1
Net exports-pct.pt.contr.	-1.5	-1.6	-1.5	
Inventories-pct.pt.contr.	1.0	1.1	1.0	1.4
Core PCE price index	1.4	1.4		1.3
(%oya)	1.4	1.4		1.4
GDP chain price index	2.0	2.1		2.0
(%oya)	1.3	1.3		1.3
Adj. corporate profits				-1.4
(%oya)				-0.7

The BEA revised its estimate of 4Q real GDP growth up from 4.1% to 4.3% saar. While this latest figure was an upgrade relative to the BEA's February 25th estimate and slightly above expectations for the report, the details of the revision were somewhat unfavorable in terms of final demand, as they showed real final sales growth revised down in 4Q and the inventory data for the quarter revised up. The revisions weren't huge either way (especially considering some of the swings we have seen since the pandemic began) and this recent report didn't meaningfully change our outlook for future growth.

The GDP release also contained the BEA's first estimate of GDI for 4Q. While GDP and GDI generally behave similarly, GDI growth significantly outperformed GDP growth in 4Q (this came after GDP outperformed GDI in 3Q). In 4Q, nominal GDI surged 17.9% saar while nominal GDP increased "only" 6.3%. With the upside surprise in 4Q GDI, the decline in profits during the quarter wasn't as large as we had anticipated—corporate profits were down 1.4% saqr and down 0.7% oya.

Personal income (Mar 26)

%m/m, sa, unless noted

	Dec		Jan		Feb	
Personal income	-0.6	0.5	10.0	10.1	-7.6	-7.1
Wages & salaries	0.5		0.7		-0.3	0.0
Consumption	-0.4	-0.6	-2.4	3.4	-0.6	-1.0
Real consumption	-0.8	-0.9	-2.0	3.0	-0.9	-1.2
PCE price index	0.4		0.3		-0.3	0.2
Core	0.30	0.29	0.25		0.16	0.09
Mkt-Based Core	0.2		-0.3	0.2		0.2
Core (%oya)	1.4		1.5		1.5	1.4
Mkt-Based Core	1.3		1.4			1.4
Saving rate	13.4	13.5	20.5	19.8	13.8	13.6

The big swings in the February PCE report were pretty close to our expectations. Nominal income dropped 7.1% in February after surging 10.1% in January, and much of this volatility was associated with swings in income associated with the stimulus checks paid out as a result of the December stimulus deal (most of these payments were made early in January). Like the income data, the saving rate also has bounced around lately, jumping 6.3%-pts in January before falling 6.2%-pts in February, mostly recently coming in at 13.6%.

The drop in February income likely restrained consumer spending during the month relative to the strong January and

we also think that the bad weather depressed February activity. Whatever the reason, real consumer spending fell 1.2% in February following the 3.0% jump in January. Despite the weakness in February, we think real consumption is on track for strong growth in 1Q (around 9% saar). Income should jump again in March with another round of stimulus payments going out and we think that normalization in the weather and continued "reopenings" will help support spending in March.

The broad trends in the main PCE price indexes continued to run below the FOMC's 2% inflation target in February. The headline PCE price index rose 0.23% (1.6% oya) while the core index increased 0.09% (1.4% oya).

International trade (adv.) (Mar 26)

\$bn, samr, unless noted

	Dec	Jan	Feb	
Balance of goods, Cen.	-83.2	-84.6	-86.4	-86.7
Exports (%samr)	4.6	1.5	1.6	-3.8
Imports (%samr)	1.4	1.6	1.8	-1.4

The nominal goods deficit widened from \$84.6bn in January to \$86.7bn in February. This widening was pretty close to our forecast, although it came with unexpected drops in both exports (-3.8%) and imports (-1.4%) during the month.

Business inventories (adv.) (Mar 26)

%m/m, sa, unless noted

	Dec		Jan		Feb	
Wholesale	-0.6	0.3	-1.3	1.4	0.4	0.5
Retail inventories	1.7		-0.5	-0.3	1.2	0.0
Ex autos	1.9		-0.4	0.2	0.1	1.2
Autos	1.1		-1.5	-1.4	3.8	-2.6

The latest inventory data came out above our expectations, with wholesale inventories increasing 0.5% in February and retail inventories about unchanged. Despite this upside surprise, we still think that the 1Q change in inventories will be weak overall, with declines related to autos looking particularly notable.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Consumer sentiment (Mar 26)

	Feb	Pre Mar	Fin Mar
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JPMorgan Chase Bank NA

Michael Feroli (1-212) 834-5523
 michael.e.feroli@jpmorgan.com

Daniel Silver (1-212) 622-6039
 daniel.a.silver@jpmorgan.com

Jesse Edgerton (1-212) 834-9543
 jesse.edgerton@jpmchase.com

Economic Research**United States**

March 26, 2021

J.P.Morgan

Univ. of Mich. Index	76.8	83.0	83.5	84.9
Current conditions	86.2	91.5		93.0
Expectations	70.7	77.5		79.7
Inflation expectations				
Short term	3.3	3.1		3.1
Long term	2.7	2.7		2.8

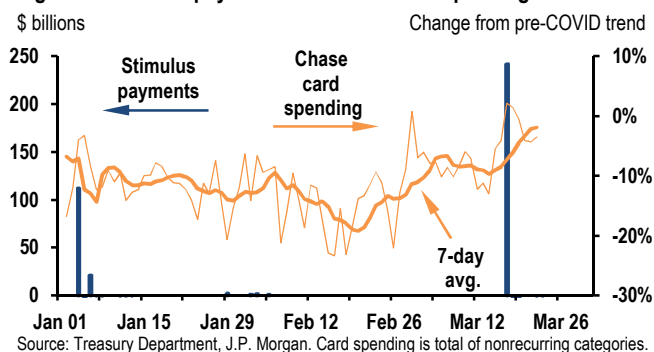
The University of Michigan consumer sentiment index was revised up from 83.0 to 84.9 between the preliminary and final March reports. Prior to this revision, the preliminary March reading was the highest sentiment figure since the drop reported early in the pandemic, and now the updated March figure looks a little stronger (while remaining low relative to the pre-virus trend). This latest report also showed an upward revision to the median five-year-ahead inflation expectation, from 2.7% to 2.8%. This updated figure is still low in a broad historical context, but it was the highest reported for this series since July 2015.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Focus: Stimulus adds fuel to spending rebound

The Treasury Department sent out \$242 billion in electronic stimulus payments on March 17. Daily spending on Chase credit and debit cards jumped by about 10% as the payments arrived, but drifted back down somewhat in recent days (Figure 1). The spending jump was largest in the lodging, restaurants, and retailer categories, and for Millennial and Gen Z cardholders. Total spending in the week ending March 22 was just 1.6% below its pre-COVID trend. Although the mapping from Chase spending to Census retail sales is imperfect, we look for a high-single-digit percentage gain in March retail sales with partial data for the month in hand.

Figure 1: Stimulus payments and Chase card spending



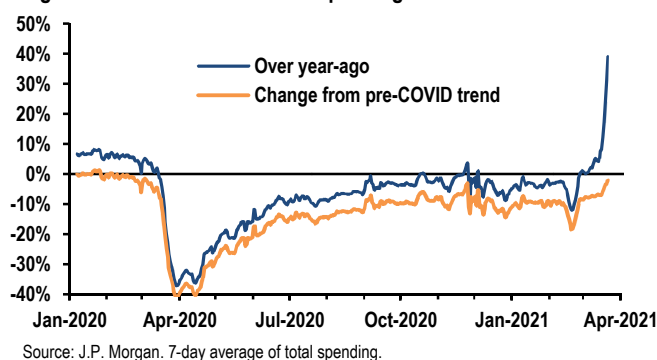
On March 11, President Biden signed the American Rescue Plan (ARP), authorizing \$1,400 stimulus payments to most Americans. Although media reports suggested some payments reached consumer accounts by March 12, the Treasury Department reported that the first \$242 billion of electronic payments was sent on March 17. Our colleagues from the [JPMC Institute have previously documented](#) that Treasury outflows appear in Chase bank accounts with very little lag, so we expect that the bulk of the payments were indeed available to consumers on March 17.

In our [Chase consumer credit and debit card spending data](#) we see a noticeable jump in daily spending between March 11 and March 17. In fact, some of the jump occurred in the days prior to March 17, and in the last few days through March 22 spending softened somewhat, although daily fluctuations of this size are not uncommon (Figure 1). The 7-day average of spending has risen significantly since the ARP was signed, building on the rebound from [severe winter weather](#) and the broader rebound from COVID-19 that already were underway.

As we pass the one-year anniversary of the severe contraction in activity from the first wave of COVID, over-year-ago data will spike into the stratosphere due to “base effects.” We thus focus instead on a comparison to a counterfactual “pre-

COVID trend,” which assumes that spending would have grown at its pre-COVID rate since the same day in 2019. By this metric, total Chase card spending is now just 1.6% below its pre-COVID trend, after bottoming 40% below trend last March (Figure 2).

Figure 2: Chase consumer card spending tracker



Looking across categories, retail spending (excluding supermarkets, discount stores, and pharmacies) has risen notably since the ARP was signed (Figure 3). Travel and entertainment categories like restaurants, lodging, and airlines have been on an upswing both before and after the stimulus payments. Cutting the data by generation, there had been some signs of Baby Boomers catching up to Millennials amid the vaccine rollout over the last few months, but Millennial and Gen Z spending has jumped ahead since the passage of the ARP (Figure 4).

Figure 3: Chase consumer card spending: selected categories

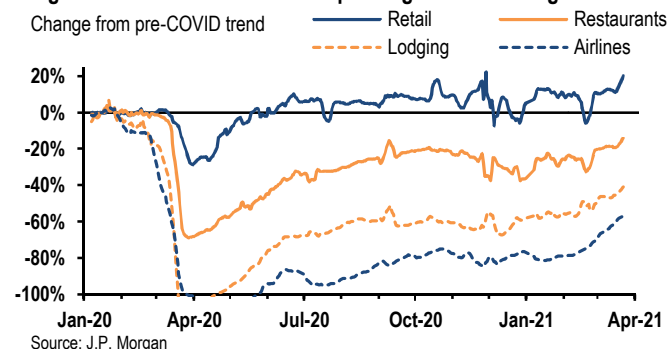
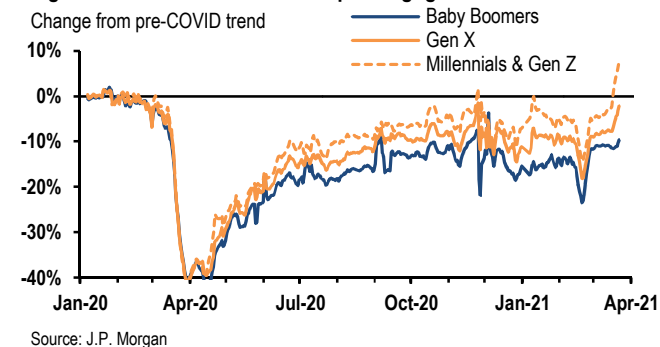


Figure 4: Chase consumer card spending: generations

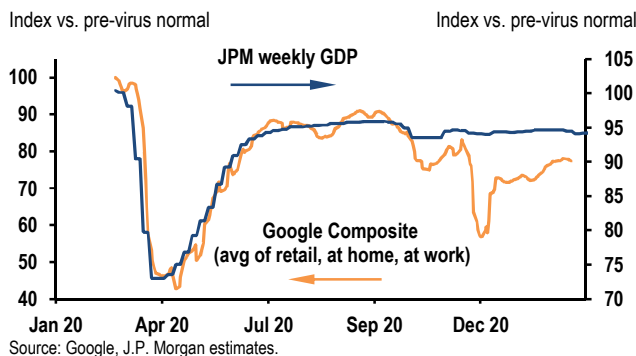


Euro area

- **PMI composite jumped in March; manufacturing output index at historical high**
- **Additional restrictions were imposed in a number of countries recently**
- **We expect activity to decline before returning to the path we had previously projected by May/June**

The Euro area composite output PMI index jumped 3.7pts to 52.5 in March, a significant surprise as we expected a 0.8pt decline. This steep increase contrasts with recent decisions to [tighten restrictions](#) in a number of Euro area economies (including Germany, France, and Italy), which already has triggered a drop in mobility (Figure 1). But, to be fair, new restrictions came late in the March 12-23 PMI survey period, except in Italy, and some restrictions in Germany were eased before and partially reversed late in the survey period. Looking at the data, strong domestic and foreign demand on the manufacturing side buoyed the strong PMI output reading. The sentiment channel also may be at work for both manufacturing and services given the magnitude of the March increase. Indeed, the rising pace of vaccination reinforces the view that restrictions will ease in the coming months.

Figure 1: Euro area activity

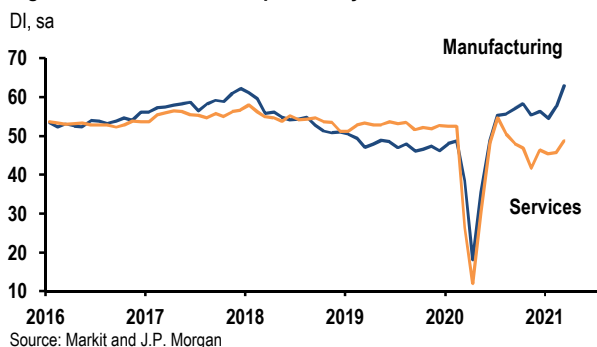


While it has been difficult to map PMI outcomes onto activity since the virus outbreak, we take comfort from this week's outcome as we expect activity to step up significantly once restrictions are eased. Last week, tighter restrictions prompted us to lower our monthly GDP profile for March/April, but we argued that activity would come back to the path we had previously forecast by May/June. This led to a downward revision to our 2Q GDP growth forecast to 7.5% ar and an upgrade of the 3Q forecast to 12.5% ar, leaving 4Q21 GDP unchanged around 1% above the 4Q19 level. This week's PMI report suggests that the economy is ready to rebound strongly when a removal of restrictions allows.

Manufacturing PMI at all-time high

The 5.3pts surge in the manufacturing output PMI to 63.0 genuinely surprised us and left the survey at a historical high (Figure 2). Looking at the details, new orders jumped 6.4pts to 64.2 and new export orders increased 4.6pts to 62.4, both also reaching historical highs. Virus-related restrictions are not curtailing manufacturing production, which is being driven by very strong domestic and global demand. There are, furthermore, good reasons to think that this support will remain in place for some time. Indeed, restrictions have constrained household consumption due to some business closures in the services sector. Strong fiscal support, to a large extent, has shielded household income from the pullback in activity. There is thus a large amount of excess saving that could support consumption ahead. The significant increase in the manufacturing employment index (+3.3 to 54.7) also is a positive development.

Figure 2: Euro area PMI output survey



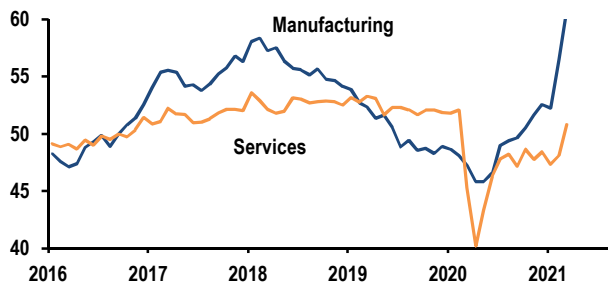
On the services side, the 3.1pt March increase in the activity index to 48.8 also was strong, but the index remains low by historical standards. This should not be surprising, since restrictions are concentrated in the services sector due to broad-based closures in the hospitality and leisure sector, and sometimes the retail sector. The details show a 2.6pt rise in the new business index to 48.5, and a modest 0.5pt rise in the employment index to 50.6. The very strong business expectations reading (stable at 66.0) indicates, in our view, that companies expect activity to step up in the coming months as restrictions are lifted due to the vaccine roll-out. On the manufacturing side, the future output index also is very strong (-1.0pt to 69.0).

Both input and output prices on the manufacturing and services sides increased sharply in March (Figure 3). And, in recent months, the rise has been particularly strong in manufacturing. Higher input prices and supply-side constraints are at play. However, these price series have not been good indicators of Euro area core inflation historically and, through the noise, our forecast assumes that underlying inflation will increase gradually as slack disappears in the Euro area. Still, the rise in the PMI output price index should be monitored. Con-

sumer price pressures could show up if companies are not willing to absorb rising input prices in their margins.

Figure 3: Euro area PMI output prices

DI, sa



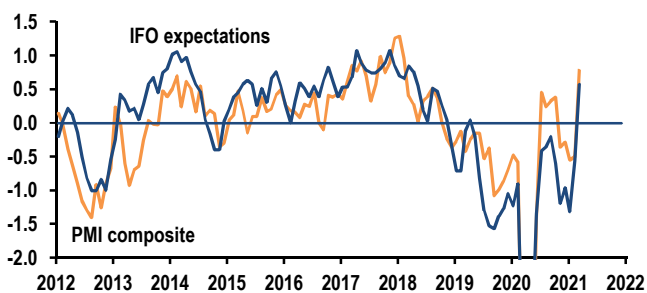
Source: Markit and J.P. Morgan

German IFO also surged in March

Echoing the flash PMI, the German IFO also surged in March (Figure 4). The main business climate index increased 3.9pts to 96.6, driven by a 5.4pt jump in expectations (to 100.4) and a 2.4pt rise in current conditions (to 93.0). The increases were also broad-based by sector. The manufacturing sector has recovered the most, but there were also very big improvements in wholesale, retail, construction, and in the rest of the services sector in March. The improvement on the domestic side could relate to a faster-than-expected reopening in February through to mid-March, which has led to increases in mobility and to strong lorry toll data. While the IFO and PMI are sending a very encouraging signal, it is still difficult to turn this into a quantitative link to GDP.

Figure 3: Germany IFO expectations and PMI

Standard deviations from average since 1999



Source: IFO, Markit, J.P. Morgan

While the March surveys are strong, the increase in mobility has also pushed up the number of new COVID-19 infections, which we think will weigh on activity until later in April. But, our forecast anticipates a relatively modest setback, with Google mobility and lorry toll data holding up well so far. It is also clear that strong political forces are pushing for further opening steps as soon as infections and vaccinations, which should accelerate during April, allow. As a result, we expect activity to grow again from late April.

Germany's flexible lockdown extended

Chancellor Merkel agreed with the heads of the German states to extend the current restrictions regime from March 28 to April 18. This means restrictions will continue to differ across municipalities according to their 7-day incidence of infections. At present, the 7-day incidence per 100,000 is at 112 in Germany as a whole, with 10% of municipalities below 50, 40% between 50 and 100, and the rest above 100. This means half of the municipalities can at this stage continue the recent opening steps, opening shops and museums, outdoor eating in restaurants, with 10% continuing more significant easing steps. Of course, the continued increase in the 7-day incidence in Germany as a whole means the shares are shifting away from openings. But, the tougher ideas that were floated before last night's meeting, such as putting all municipalities back into a stricter lockdown and imposing evening/night curfews, were rejected. The situation around schools and nurseries also is ambiguous and we assume that they will mainly remain open (although the Easter holidays are starting soon anyway). In our view, all of this reflects the political difficulty created by increasing lockdown fatigue, which makes it harder to agree on and enforce tough restrictions.

Three changes were made to the current regime. First, the government decided on a five-day "quiet" period over Easter, which involved closures (e.g., of shops, restaurants) and a "stay-at-home" recommendation. Private visits were, however, still allowed, subject to a size limit and shops tend to close over some of the Easter period anyway. The economic impact of this would have been modest, but the government was forced to make a u-turn on this due to widespread criticism of this "quiet" period. Second, the emergency brake in the current regime, which sees easing steps reversed if the 7-day incidence rises above 50 and then above 100, was reinforced. In particular, there will be stricter monitoring that this is being applied fully at the local level and it was clarified that easing steps are possible only if the 7-day incidence is stable or falling within a band. The latter should prevent a municipality from opening when its 7-day incidence is predictably going to breach a threshold within days. Third, municipalities with a 7-day incidence above 100 are supposed to take additional measures. However, Merkel and the state leaders could not agree on specifics and only managed to give a few examples, which mainly revolve around stricter mask-wearing rules.

Overall, the recent announcements are in line with our downwardly-revised GDP forecast, which assumes that new easing steps are likely only from late April. Of course, the level of GDP is hard to gauge, but, in terms of the profile, we assume a partial setback until late-April after the faster-than-expected reopening in February and in early March.

Data releases and forecasts

Week of March 29 – April 2

Output and surveys

Purchasing managers index final (manufacturing)

Thu		Dec	Jan	Feb	Mar
Apr 1	Euro area				
10:00am	Overall region	55.2	54.8	57.9	<u>62.4</u>
9:55am	Germany	58.3	57.1	60.7	<u>66.6</u>
9:50am	France	51.1	51.6	56.1	<u>58.8</u>
9:45am	Italy	52.8	55.1	56.9	
9:15am	Spain	51.0	49.3	52.9	

The flash PMI showed a significant increase in the output component. This increase was furthermore broad-based across countries. Looking at the details, new orders were up 6.4pts to 64.2 and new export orders were up 4.6pts to 62.4, also reaching a historical high in both cases. Virus-related restrictions are not impacting manufacturing production, which is being driven by very strong domestic and global demand.

European Commission survey

Tue		Dec	Jan	Feb	Mar
Mar 30	Euro area				
11:00am	% balance of responses, sa				
	Economic confidence	92.4	91.5	93.4	<u>98.0</u>
	Manufacturing confidence	-6.8	-6.1	-3.3	
	Construction confidence	-8.0	-7.7	-7.5	
	Retail confidence	-13.2	-18.5	-19.1	
	Service confidence	-17.1	-17.7	-17.1	
	Consumer confidence	-13.8	-15.5	-14.8	

The PMI increased sharply in March and this increase was broad-based across sectors. We also expect the EC economic sentiment survey to show a significant increase. The outcome for the retail sector, which is not part of the PMI survey, will be important to monitor as restrictions are still significant in this sector in some countries of the region.

Demand and labor markets

Unemployment

Wed		Dec	Jan	Feb	Mar
Mar 31	Germany				
9:55am	Registered (ch m/m, 000s, sa)	-35	-37	9	<u>-20</u>
	000s, nsa	2707.2	2900.7	2904.4	
	Unempl. rate (% , sa)	6.1	6.0	6.0	<u>6.0</u>

Employment

Wed		Nov	Dec	Jan	Feb
Mar 31	Germany				
9:55am	Change m/m, 000s, sa	-26	11	16	<u>20</u>

Pressures created by the COVID-19 restrictions are showing up in increased short-time work, rather than in higher unemployment. But, these pressures are much smaller than they were last spring and the business surveys point to a very strong underlying trend in activity. In March, a number of sectors were allowed to reopen, even if some openings proved short-lived. This is likely to provide some boost to the labor market.

Retail sales

Thu		Nov	Dec	Jan	Feb
Apr 1	Germany				
8:00am	Sales ex. autos and petroleum, volumes, sa				
	%m/m	1.6	-8.0	-6.5	<u>3.0</u>
	%oya	9.2	1.6	-6.3	

German retail sales fell sharply in December and January. The two main causes are the closure of nonessential retail shops in mid-December and the reversal of the temporary VAT cut. Some recovery is likely in February as online shopping may begin to recover. But, nonessential retail shops only began to reopen in March (and in some cases temporarily), so that a stronger recovery may still take time.

Domestic consumption

Wed		Nov	Dec	Jan	Feb
Mar 31	France				
8:45am	Consumption of goods, volumes, swda				
	%m/m	-17.9	22.4	-4.6	
	%oya	-15.6	3.6	0.0	

Inflation

Consumer prices

Wed		Dec	Jan	Feb	Mar
Mar 31	Euro area (flash)				
11:00am	HICP (%oya, nsa)	-0.3	0.9	0.9	<u>1.5</u>
	HICP core (%oya, nsa)	0.2	1.4	1.1	<u>1.2</u>

Tue		Dec	Jan	Feb	Mar
Mar 30	Germany (prelim)				
2:00pm	%m/m, nsa	0.5	0.8	0.7	<u>0.4</u>
	%oya	-0.3	1.0	1.3	<u>1.7</u>
	HICP (%oya)	-0.7	1.6	1.6	<u>2.2</u>
	Baden Wuertemberg (%oya)	0.1	1.1	1.4	<u>1.7</u>
	Bavaria (%oya)	-0.3	1.4	1.3	<u>1.7</u>
	Brandenburg (%oya)	-0.1	1.3	1.4	<u>1.7</u>
	Hesse (%oya)	-0.5	0.9	1.0	<u>1.8</u>
	North-Rhine West (%oya)	-0.4	1.0	1.3	<u>1.8</u>
	Saxony (%oya)	0.0	1.0	1.3	<u>1.7</u>

Wed		Dec	Jan	Feb	Mar
Mar 31	France (prelim)				
8:45am	%m/m, nsa	0.2	0.2	0.0	<u>0.8</u>
	%oya, nsa	0.0	0.6	0.6	<u>1.3</u>
	HICP (%oya)	0.0	0.8	0.8	<u>1.7</u>

Wed		Dec	Jan	Feb	Mar
Mar 31	Italy (prelim)				
11:00am	%m/m, nsa	0.2	0.7	0.1	<u>0.4</u>
	%oya, nsa	-0.2	0.4	0.6	<u>0.9</u>
	HICP (%oya, nsa)	-0.3	0.7	1.0	<u>0.7</u>

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

		Dec	Jan	Feb	Mar
Tue	Spain (flash)				
Mar 30	%m/m, nsa	0.2	0.0	-0.6	<u>0.6</u>
9:00am	%oya, nsa	-0.5	0.5	0.0	<u>0.9</u>
	HICP (%oya, nsa)	-0.6	0.6	-0.1	<u>0.6</u>
		Dec	Jan	Feb	Mar
Tue	Belgium CPI				
Mar 30	%m/m, nsa	0.0	0.4	0.2	
8:00am	%oya, nsa	0.4	0.3	0.5	

Euro area headline inflation is set to pick up sharply in March as energy price inflation is being boosted by the price of Brent. We expect core inflation to be very noisy this year as distortions are playing out, including the return of the German VAT rate to 19%, delayed winter sales period, and changing weights in the HICP basket. In March we expect core inflation to inch up to 1.2%oya.

Review of past week's data

Output and surveys

Purchasing managers index flash (manufacturing)

	Jan	Feb	Mar	
Euro area				
Overall region	54.8	57.9	<u>55.8</u>	62.4
Germany	57.1	60.7		66.6
France	51.6	56.1		58.8

Purchasing managers index flash (services)

	Jan	Feb	Mar	
Euro area				
Overall region	45.4	45.7	<u>44.2</u>	48.8
Germany	46.7	45.7		50.8
France	47.3	45.6		47.8

Purchasing managers index flash (composite)

	Jan	Feb	Mar	
Euro area				
Overall region	47.8	48.8	<u>47.6</u>	52.5
Germany	50.8	51.1		56.8
France	47.7	47.0		49.5

See Euro area essay for details.

Consumer confidence (prelim)

	Jan	Feb	Mar	
Euro area (European Commission survey)				
% balance of responses				
Consumer confidence	-15.5	-14.8	<u>-16.0</u>	-10.8

The move up in consumer confidence was strong in March. No details were released in the survey but this rebound echoes the jump in the March PMI survey. Additional virus-related restrictions were imposed in a number of countries, but these restrictions are very recent and would have come very late in the consumer confidence sample period.

National business surveys

German IFO survey

	Jan	Feb	Mar	
2015=100, sa				
Business climate	90.3	<u>92.4</u>	92.7	<u>92.4</u> 96.6
Business situation	89.2	90.6		<u>91.0</u> 93.0
Business expectations	<u>91.5</u>	91.4	<u>94.2</u>	95.0 <u>94.0</u> 100.4

France (INSEE survey - manufacturing)

	Jan	Feb	Mar	
Index				
Composite index	96.0	<u>97.4</u>	97.9	97.9
Index of past production	6.2	<u>5.0</u>	3.5	10.1
Exp. output - personal	7.8	<u>10.2</u>	11.6	5.1
Exp. output - general	-9.6	<u>-7.6</u>	-7.3	5.5

Italy (ISAE survey)

	Jan	Feb	Mar	
2000=100, sa				
Producer confidence	<u>95.6</u>	96.0	<u>99.0</u>	99.5 101.2

Real GDP

	2Q20	3Q20	4Q20	
Spain				
%q/q, sa	<u>-17.9</u>	-17.8	<u>16.4</u>	17.0 <u>0.4</u> 0.0
%q/q, saar	<u>-54.5</u>	-54.3	<u>83.6</u>	87.7 <u>1.6</u> 0.1
%oya	-21.6	<u>-9.0</u>	-8.6	<u>-9.1</u> -8.9
GDP components (%q/q saar)				
Private consumption	<u>-59.7</u>	-58.4	<u>109.4</u>	113.5 <u>10.2</u> 0.1
Government consumption	<u>1.3</u>	2.4	<u>4.8</u>	5.4 <u>17.1</u> 5.4
Fixed capital formation	<u>-60.3</u>	-60.0	<u>149.1</u>	118.2 <u>11.7</u> 4.1
Exports	<u>-80.0</u>	-81.0	<u>185.1</u>	195.0 <u>-5.6</u> 19.8
Imports	<u>-73.9</u>	-74.1	<u>160.4</u>	158.6 <u>1.5</u> 27.1

Financial activity and public finance

Money and credit data

	Dec	Jan	Feb	
Euro area				
M3 (%m/m sa)	1.4	<u>0.5</u>	0.6	0.4
M3 (%oya)	12.4	12.5		12.3
Loans (%oya) ¹	4.7	4.5		4.5
Loans (m/m, €bn) ¹	42.7	<u>41.9</u>	11.0	28.7
Of which				
To households	23.6	<u>44.0</u>	13.7	20.3
To nonfinancial corporates	12.9	<u>-0.2</u>	-3.1	12.9

¹ Loans to nonbank private sector, adjusted for securitization

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

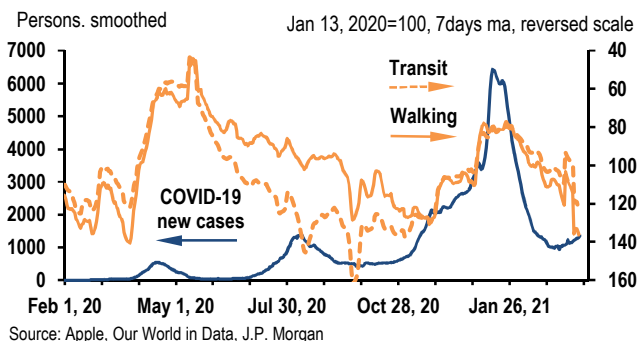
Japan

- **Walking mobility jumped to the highest in a year in the first week after the state of emergency was lifted**
- **Infection cases have also risen gradually, posing downside risks to our 2Q21 consumption forecast**
- **The March flash PMI signaled risks of supply constraints dragging on production**
- **We now expect underlying inflation excluding policy factors to remain firm and not fall into deflation**

Downside risks to our economic forecasts have emerged this week. In the first week after the lifting of the state of emergency, walking mobility jumped to the highest since the start of the pandemic, close to the level in late March 2020 (Figure 1). Seasonal factors at the end of the fiscal year likely contributed to the jump, but even without this, mobility has been trending up in recent months. Infection cases also have risen gradually, especially in the prefectures where the state of emergency was not imposed, leading some prefectures to request restaurants and bars to shorten business hours. We think this poses downside risk to our 2Q21 consumption forecast, as people would start self-isolating if infection cases continue to rise.

Meanwhile, the Cabinet Office's real private consumption index (COI) fell more than expected in January, the first month of the renewed state of emergency. We continue to expect consumption to have picked up alongside a rise in mobility in February and March, especially for services, but the COI print poses some downside risk to our forecast for a 4.0%/q, saar fall in consumption this quarter.

Figure 1: COVID-19 new cases and mobility



This week, concerns about supply constraints also rose among manufacturers. After a fire last week, one of the largest domestic chipmakers for autos announced a months-long halt to production at a key plant. Meanwhile, the March flash PMI pointed to serious supply shortages, with an abrupt lengthen-

ing of manufacturing suppliers' delivery times and a surge in input prices. Although the global semiconductor shortage has yet to significantly drag on Japan's production, these other factors could be a drag, particularly for autos, in coming months. While our projections are unchanged, we see this as a downside risk to our forecast of an 11.0%/q, saar industrial production gain in 2Q.

Consumption plunged in January

The Cabinet Office's real private consumption index (COI) fell 3.0%/m, sa in January, the first month of the renewed state of emergency (Figure 2). This drop was significantly larger than our estimate of a 1.0% decline, based on the BoJ's consumption activity index released earlier this month. It is still fairly early to piece together these source data, but we think this poses downside risks to our forecast of a 4.0%/q, saar decline in GDP-based consumption in 1Q.

Figure 2: Monthly consumption index

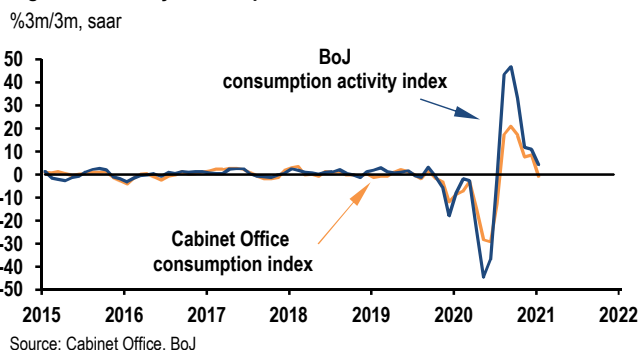
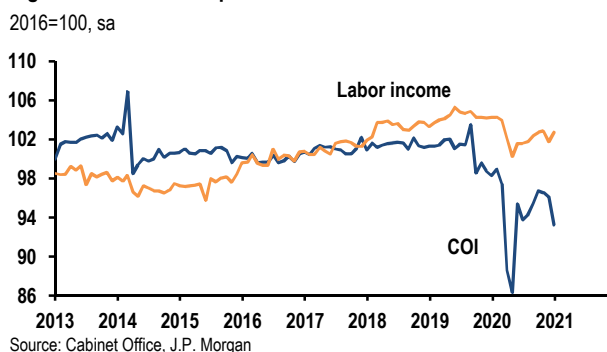


Figure 3: Real consumption and labor income



Meanwhile, labor income grew 1.0%/m, sa in January, largely offsetting the 1.1% fall in December (Figure 3). Labor income has been trending up modestly since the summer, after hitting a post-pandemic bottom in May 2020. The combination of firm labor income and weak consumption left excess household savings, posing upside risk to our consumption outlook for quarters ahead. That said, we think confidence in infection-control policy needs to be restored for the excess savings to boost consumption. Indeed, media surveys suggest

that a majority of people think the lifting of the state of emergency from March 21 was an inappropriate policy decision, and still worry about a potential resurgence in infection cases.

Supply constraints are becoming serious

The flash composite PMI edged up by 0.1pt to 48.3 in March, leaving the 1Q average a modest 0.3pt below the 4Q20 average. Despite the more than two-month-long state of emergency that was lifted on March 21, the economy appears to have remained resilient compared to 2Q20, when the composite PMI plunged 13pts from the previous quarter. In the manufacturing sector, the output index declined 0.4pt, but still remained well above the average for the last two years, at 52.0.

Figure 4: PMI, suppliers' delivery times, manufacturing

DI, sa



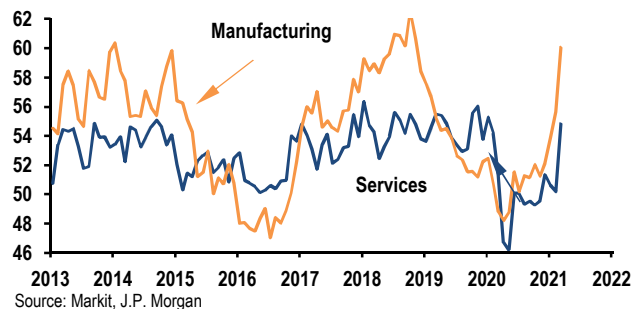
Underlying demand and the business outlook appear to remain solid, with the backlogs of the work index jumping 2.6pts to 51.0 and the new orders index edging up 0.1pt to 52.2. However, disruptions in intermediate goods supply, particularly of semiconductors, became apparent, with the suppliers' delivery time index diving 4.4pts to 42.5, pointing to longer lead times (Figure 4). This also led a large jump in input prices, with the index up 4.4pts to 60.1 (Figure 5), and a sharp drop in business sentiment, with the future output index plunging 5.8pts to 56.2. Although the global semiconductor supply shortage has yet to significantly drag on Japan's production, this could worsen in coming months, as one of the largest domestic chipmaker's supply likely will decline, due to a fire at a key plant last week.

In the service sector, business activity continued to recover, with the index rising 0.3pt to 46.5, the new business index jumped more, rising 2.3pts to 47.1. On the other hand, business optimism dipped 0.8pt, although the index remained high, at 56.0. Overall, firms appear to have become confident in a recovery in business activity. Improvements in business confidence were also evident in employment conditions, with the employment index jumping 1.9pts to 52.5, the highest reading since May 2019. Despite the disruption caused by the state of emergency in response to a surge in infections during the winter, firms became more optimistic about business conditions,

with expectations for an easing of restrictions and a broader vaccine rollout.

Figure 5: PMI, input prices index

DI, sa



March Tokyo CPI beat expectations

In the March Tokyo CPI report, the BoJ's preferred core CPI inflation measure (ex. fresh food and energy) rose by 0.1%-pt to 0.3%oya. Core inflation remains low compared to the pre-pandemic period, but the March result was firmer than our expectation for a 0.2%oya rise. Although the state of emergency remained in place for the Tokyo metropolitan area until March 21, both core goods and services prices were firmer than expected, supported by the ongoing economic recovery. Based on this Tokyo report and recent developments in the nationwide CPI, we revise up our forecast for core CPI inflation by 0.2%-pt to 0.3%-pt for the coming quarters. We expect that the underlying trend in core consumer prices will gain some momentum, and no longer will fall into deflation. However, several policy-driven factors, such as the travel subsidy program and cuts in mobile phone charges, will likely temporarily drag on core CPI inflation, distorting the inflation path. We look for core CPI inflation to temporarily fall into negative territory in 2Q, hitting a nadir of -0.5%oya, largely due to the policy-induced factors, and then to return to a modest recovery path, reaching 0.3%oya in 4Q20 and 0.5%oya in 4Q21.

Data releases and forecasts

Week of March 29–April 2

Tue Labor force survey

Mar 30 8:30am	Sa				
		Nov	Dec	Jan	Feb
	Unemployment rate (%)	3.0	3.0	2.9	<u>2.9</u>
	Job offers ratio	1.05	1.05	1.10	<u>1.10</u>

We project that the unemployment rate and the job-offers-to-applicants ratio held steady at 2.9% and 1.10, respectively, in February. Despite the renewed state of emergency, the data had improved in January for the first time in two months, suggesting labor market conditions were firmer than expected. We look for the February data also to show stability in the labor market, supported by the government's employment subsidy and the firm economic recovery.

Tue Commercial sales

Mar 30 8:50am	%m/m, sa				
		Nov	Dec	Jan	Feb
	Total retail sales	-2.1	-0.7	-0.5	<u>-2.3</u>
	%oya	0.6	-0.4	-2.3	<u>-6.5</u>

We expect retail sales to fall 2.3%/m/m, sa in February, marking the fourth consecutive monthly decline. With the extension of the state of emergency, various types of retail stores including drug stores and department stores reported a plunge in sales in February, pointing to a larger decline in February than in January.

Wed Industrial production

Mar 31 8:50am	%m/m, sa, base year 2010				
		Nov	Dec	Jan	Feb
	Production	-0.5	-1.0	4.3	<u>0.0</u>
	Shipments	-1.2	-1.1	3.2	
	Inventories	-1.5	1.1	0.0	
	Inventory/shipments ratio	-2.2	2.0	-5.7	

We expect industrial production to move sideways in February. Although IP posted a strong gain in January, supported by robust global goods demand, we expect the pace of the recovery to moderate, as demand in China softened some. Also, as the global semiconductor shortage continues, some automakers appear to still face constraints to increase production. We still think underlying production demand remains strong, but look for a temporary pause in the production recovery.

Wed Housing starts

Mar 31 2:00pm					
		Nov	Dec	Jan	Feb
	Housing units %oya	-3.7	-9.0	-3.1	<u>-2.5</u>
	%m/m, sa	0.7	-4.2	2.2	<u>2.0</u>
	Mn units saar	0.82	0.78	0.80	
	Floor space, 6mma* (%m/m, sa)	0.61	-0.28	0.08	

We expect housing starts to mark the second consecutive monthly rise, increasing 2.0%/m/m, sa in February. They remained weak on an oya basis, posting consecutive declines for one year and a half, but the January data showed they appeared to bottom, especially in the built-for-sale

category. We expect them to continue to recover at a moderate pace, reflecting new demand from the spread of WFH.

Thu BoJ Tankan

Apr 1 DI, "good" minus "bad"

		Dec 2020		Mar 2021	
		Current	Outlook	Current	Outlook
	Large mfg	-10	-8	<u>2</u>	<u>9</u>
	Large nmfg	-5	-6	<u>-5</u>	<u>2</u>
	Small mfg	-27	-26	<u>-21</u>	<u>-17</u>
	Small nmfg	-12	-20	<u>-12</u>	<u>-10</u>
		FY2020 plan		FY2021 plan	
	Capex, %oya	Dec	Mar	Mar	
	Large firms	-1.2	<u>-2.2</u>	<u>5.3</u>	
	Small firms	-13.9	<u>-11.8</u>	<u>-14.9</u>	
	Current profit, %oya				
	Large firms	-34.6	<u>-28.5</u>	<u>14.6</u>	
	Small firms	-37.6	<u>-26.9</u>	<u>19.8</u>	

We expect the business conditions DI for manufacturing will continue to recover briskly, while nonmanufacturing will not change in the current assessment but will recover in the outlook, while remaining below the pre-pandemic level. The recovery of small firms likely will be more gradual. The Tankan's focus this time is capex plans. Large firms likely will show double-digit growth for FY2021 ordinary profits and a strong capex plan for FY2021. Small firms likely will indicate double-digit growth for FY2021 ordinary profits, but a cautious stance for the FY2021 capex plan especially in nonmanufacturing, partly reflecting the fact that most of them have not yet decided their whole-year plans. Financial conditions likely will be accommodative. Another focus is whether inflation expectations will show signs of improving, but we don't expect a clear improvement in mid-term expectations. Overall, we expect the Tankan will clarify the trend toward recovery with imbalances between manufacturing and nonmanufacturing without reflation, which likely will not affect the current stances of the government and the BoJ.

Review of past week's data

Real private consumption composite index (Mar 23)

%m/m, sa		Nov	Dec	Jan	
CAI (BoJ)		0.7	0.3	-2.7	
Cabinet office index		<u>-0.3</u>	-0.2	<u>-2.4</u>	-0.4
					-3.0

See the main essay.

Services producer prices (Mar 24)

		Dec	Jan	Feb
%oya		-0.2	-0.4	—
ex. international transportation		0.0	-0.2	0.0

The deflation of the service producer prices index (SPPI) eased sharply in February, even under the state of emergency, falling 0.1%oya after a 0.4%oya decline in January. The February pickup was largely due to transportation fees, which fell 0.3% after a 0.7% decline in January, reflecting the recent rise in oil prices. The volatile advertisement services also jumped, rising 4.2%-pts to 0.4%, pushing up the overall SPPI rise. On the oth-

er hand, hotel services declined further, falling 30.2%, and temporary employment agency services continued to decelerate sharply at 3.2%. As the SPPI, services prices at the producer stage, tends to lead changes in prices at the consumer stage, we expect services consumer prices will continue to recover in accordance with the domestic economic recovery. However, its pace should be moderate reflecting the continued business and mobility restrictions due to the pandemic.

Markit manufacturing/ services PMI, final (Mar 24)

Diffusion index

	Jan	Feb	Mar	
Manufacturing (headline)	49.8	51.4	<u>52.0</u>	
Services (business activity)	46.1	46.3	<u>47.8</u>	46.5

See the main essay.

Tokyo Consumer prices (Mar 26)

%oya, 2015-based

	Jan	Feb	Mar	
Overall	-0.5	-0.3		-0.2
Core (ex fresh food)	-0.5	-0.3	<u>0.0</u>	-0.1
Ex fresh food and energy	0.2	0.2	<u>0.2</u>	0.3

See the main essay.

Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

Canada

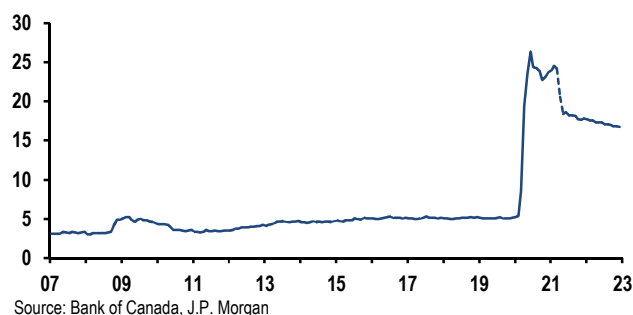
- **We expect the Bank of Canada to start tapering its GoC bond purchase program next month**
- **The Bank announced the balance sheet would shrink about C\$100bn as supplementary programs roll off**
- **Business and consumer sentiment measures soared in March**

This week the Bank of Canada announced its intention to begin normalizing its balance sheet by scaling back several aspects of its asset purchase program. Importantly, we believe the Bank signaled that it has gained enough confidence in the strength of the recovery to begin tapering the Government of Canada bond purchase program at the next meeting on April 21. We expect the Bank will reduce its weekly purchases from C\$4bn to C\$3bn. The risk to our forecast lies in the performance of the data until the meeting. The Bank is currently taking the pulse of the business community for the Business Outlook Survey and the March Labor Force Survey will be released on April 9. After next month's meeting, we expect the normalization process to be measured and gradual. The Bank has emphasized that it will be "guided by our evolving assessment of the macroeconomic outlook and the strength and durability of the recovery."

A speech this week by Deputy Governor Gravelle served as the monetary policy communication tool. He revealed in his remarks that beginning in mid-May the Bank will discontinue its emergency market liquidity program, specifically the current term repo program. He noted that the liquidity risk that financial institutions faced at the height of the pandemic has been alleviated by the well-functioning markets of today. As the short-term funding facilities roll off, the Bank's balance sheet, which has been relatively stable since last July, will decline to about C\$475 billion or about C\$100 billion below than its current level (Figure 1).

Figure 1: Bank of Canada balance sheet with our forecast

% of GDP

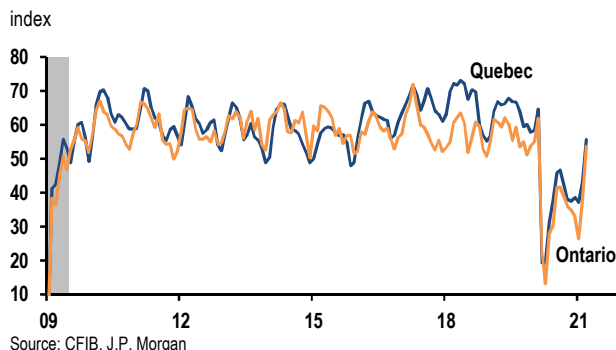


Moreover, three of the Bank's supplementary asset purchase programs—commercial paper, provincial bonds, and corporate bonds—will not be extended beyond their one-year end dates. Deputy Governor Gravelle noted that "Corporate and provincial borrowers have unfettered access to fully functional debt markets." The central bank has become increasingly transparent since Tiff Macklem became governor last June.

Small business sentiment soared in March

Small business sentiment surged in March largely driven by increased optimism in the two largest provinces (Figure 2). CFIB's Business Barometer Index jumped 5.7pts to 68.2, a level suggesting solid widespread optimism in the 12 months ahead.

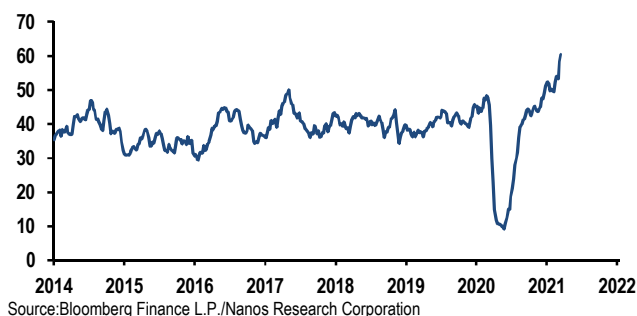
Figure 2: CFIB Small business sentiment



The bullish shift extends to consumer confidence indicators. General sentiment reached a fresh high this week and the commentary suggests that the vaccination roll-out has boosted consumers' outlook. The humming housing market also appears to be lifting spirits. In the past four weeks sentiment linked to the real estate market has jumped 11pts (Figure 3).

Figure 3: Economic mood: real estate

diffusion index



The virtuous circle of improving household and business confidence suggests upside risk to our 4.5% average GDP growth forecast for 1H21.

Data releases and forecasts

Week of March 29 – April 2

Wed	Monthly GDP					
Mar 31	sa					
8:30am		Oct	Nov	Dec	Jan	
	Total,%m/m	0.8	0.8	0.1	<u>0.5</u>	
	%oya	-3.5	-2.8	-3.0	<u>-2.5</u>	
Wed	Industrial PPI					
Mar 31	%m/m, nsa, unless noted					
8:30am		Nov	Dec	Jan	Feb	
	Total	-0.5	1.7	2.0	<u>2.5</u>	
	%oya	0.5	2.0	4.0	<u>6.6</u>	
	Ex energy	-0.9	1.1	1.5	<u>1.9</u>	
	%oya	4.0	4.8	6.1	<u>7.5</u>	
Thu	Building permits					
Apr 1	%m/m, sa, unless as noted					
8:30am		Nov	Dec	Jan	Feb	
	Total	13.8	-4.4	8.2	<u>-1.4</u>	
	%oya	22.9	3.0	8.2	<u>16.0</u>	

Review of past week's data

No releases this week.

Source: Statistics Canada, Ivey Business School, CMHC, Markit, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

Mexico

- **Banxico on hold at 4%; market jitters and stubborn inflation call for caution**
- **We maintain our call for rates at 4% for the foreseeable future**
- **Inflation surprised at 4.1%oya in 1H Mar; we now see year-end at 3.9%**
- **GDP proxy in January stronger than expected; we revise full-year to 5.8%**

In our commentary on the Banxico minutes in late February we conditioned our call for more cuts on the behavior of inflation. However, the relentless rise of core and non-core prices ever since pushed us to change our view earlier this month to an on-hold stance at 4%. This week's unanimous on hold statement from the Bank highlighting the importance of fostering orderly adjustments in financial conditions and in relative prices validated our change. Back in February, the Board only underscored "the importance of orderly adjustments in relative prices" but as market conditions deteriorated on several fronts, it was a matter of time before the board acknowledged that such developments warranted a change in the policy stance.

To be fair, the statement was not that different from the February's in which the board voted unanimously to cut. The main difference was that this week, the board confirmed some of its worst fears: inflation is not budging and financial market dynamics are not improving. In this regard, the statement refrained from pointing out that lax global monetary conditions were likely for a prolonged period, as it has done in the past, noting the rise in US yields and flagging tighter financial conditions as a global risk. It was a neutral-to-hawkish statement only because it underscored the board's expectations of "broad economic slack in the forecast horizon" and the fact that the board still expects inflation to converge to 3%. But the catch is that this convergence is not expected this year, and only until 2Q22, slightly above the Bank's Quarterly Inflation Report released late in February. All in, we think the statement is consistent with our view that the window for rate cuts this year is closed, and that it would take a significant downshift in inflation, alongside appropriate financial market conditions, for Banxico to reconsider this stance. On the other hand, should recent trends in inflation and financial risks gain force, the debate could move in the direction of the appropriate time to lift rates.

Inflation breaches the all-important 4%

The CPI print for the first half of March came in above expectations this week, with prices increasing 0.53%2w/2w

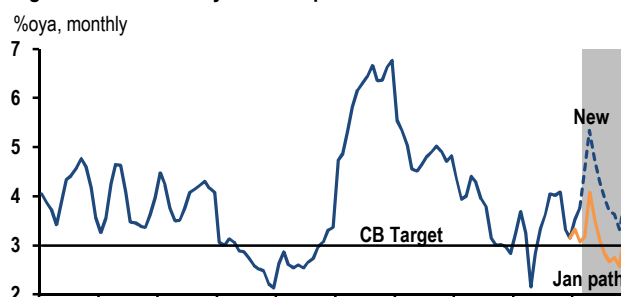
(4.12%oya). Furthermore, the upside miss was driven by almost every CPI subcomponent, with core inflation in particular surprising significantly to the upside at 0.35%2w/2w and 4.09%oya. We had argued over the past few weeks that the window for Banxico to cut rates again was narrowing, and this week's marked overshoot was a case in point. We think inflation will continue to rise in the very short term and move significantly above the target range, probably reaching close to 5.5%oya next month.

Looking at the details of the report, both headline and core inflation moved above the upper bound of the central bank's 2%-4% target range on generalized price pressures. On the core side, pressure on nonfood goods prices intensified, and inflation in this component is now running at 5.1%oya. We are growing less confident about a marked downturn in core goods inflation later in the year. Of note, the disinflation trend in processed food prices (the other component of core goods inflation) partly reversed in 1H Mar.

There were some individual items, such as tortillas, that underpinned the increase in prices, but it might be the case that gas shortages in the country late last month also were a source of upward pressure on prices in this category. The fact that restaurant prices also firmed points in the same direction. Services inflation was also higher than expected, partly reflecting the increase in restaurant prices, but also due to higher tourism prices and an uptick in housing prices. Finally, energy prices remained a significant pressure point, with gasoline prices up, and liquefied gas prices jumping more than 4% in the first half of the month. This jump appears to be a delayed response to natural gas shortages late last month.

The recent drop in oil prices and increased government subsidies should bring some relief to energy prices in the next few months, but still, the significant upside surprises across both core and non-core inflation prompted us to revise up our year-end headline and core inflation forecasts to 3.9% and 3.4%, respectively (Figure 1).

Figure 1: CPI - January and new paths



Source: INEGI and J.P. Morgan forecasts. Previous path as of Jan 2021.

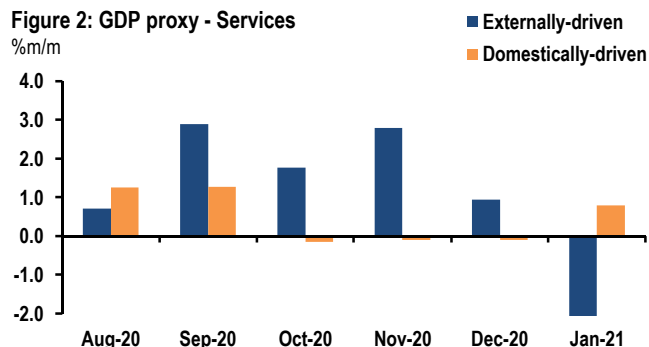
1Q GDP growth forecast raised to 1.0% saar; full year to 5.8%

This week two data releases (Jan GDP proxy and Jan retail sales) were stronger than expected, revealing resilience in activity in the face of renewed lockdowns. The GDP proxy for January printed at 0.1%/m/m, slightly above our forecast for a 0.2% decline. Part of the upside surprise reflected a jump in primary output, but services also held up better than we feared—IP growth had already been reported at 0.2%. We expected externally-driven services to be dragged down by the weak performance of exports and manufacturing in the month, which was indeed the case; output of this set of services dropped 2.3%/m/m. However, almost offsetting the decline, output of services linked to domestic demand rose 0.8%/m/m, to our surprise.

As we have highlighted in past releases, we had expected the intensification of lockdowns at the turn of the year to weigh down domestic activity. There were some hints of lockdowns disrupting output, as evident in the steep output drop in food and lodging services, but other services, spanning from real estate to business services saw output increase in the month. That said, it remains the case that the recovery has been, and still is, skewed in favor of activity linked to external demand, which has recouped most of the ground lost at the height of the pandemic.

The recovery in sectors more closely tied to domestic demand has been much slower. We think this will remain the case through most of this year, as strong US growth buoys manufacturing and related sectors while weak private sector balance sheets in the aftermath of the pandemic weigh down domestic demand. Of note, consistent with the surprisingly stronger outcome in domestically-driven services early in the year (Figure 2), retail sales held up much better than feared, rising 0.1%/m/m vs. our expectations for a steep 1.6% decline. To this point, a by-product of US stimulus has been impressive strength in remittances, which should continue to support the recovery in consumption.

Figure 2: GDP proxy - Services
%/m/m



Source: J.P. Morgan

All said, activity remained resilient at the height of renewed lockdowns across several states in the country, and survey data signal a pickup in February, notwithstanding transitory drags related to gas shortages across the country late last month. The trade balance report for February—also released this week—was not upbeat at all, but this only modestly tempers upside risks, and does not prevent us from sizably revising up our 1Q21 GDP growth forecast, which we now see at 1% ar from -0.5% before. This feeds into higher full-year growth, even if we now expect the acceleration in 2Q to be less pronounced; we now forecast 2021 full-year growth at 5.8%/y, two-tenths higher than before.

Data releases and forecasts

Week of March 29 – April 2

No data releases.

Review of past week data releases

Labor market report

% of labor force

	Dec	Jan	Feb	
Unemp. rate	3.8	4.7	—	4.4
sa	4.4	4.5	—	4.5

Consumer prices

	Feb 1H	Feb 2H	Mar 1H	
%2w/2w	0.23	0.31	0.35	0.53
Core	0.22	0.18	0.16	0.35
%oya	3.84	3.68	3.93	4.12
Core	3.84	3.89	3.90	4.09

Retail sales

	Nov	Dec	Jan	
%oya	-5.1	-5.9	-8.5	-7.6
%m/m, sa	3.7	-2.7	-1.6	0.1

Economic activity index (IGAE)

%oya, unless noted

	Nov	Dec	Jan	
%oya	-4.1	-2.7	-5.5	-5.4
%m/m, sa	0.7	0.0	-0.2	0.1

Trade balance

	Dec	Jan	Feb	
Balance (US\$ mn)	6.3	-1.2	2.9	2.7
Exports (US\$ bn)	43.2	32.7	36.6	36.2
%oya	11.5	-2.6	0.1	-1.1
Imports (US\$ bn)	36.9	33.9	33.8	33.5
%oya	3.7	-5.9	0.2	-0.6

Source: INEGI and J.P. Morgan forecasts

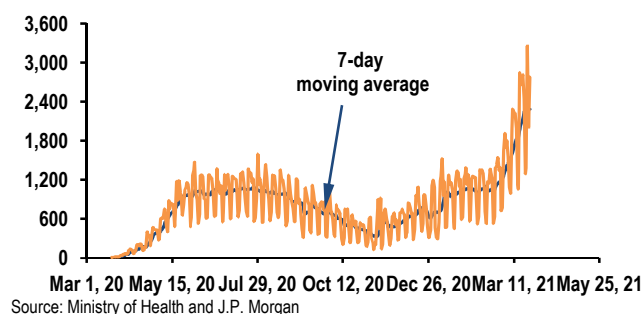
Brazil

- **Evolution of the pandemic and vaccination take the front seat in Brazil's outlook in the short term**
- **Worsening pandemic raises fiscal and political risks; FX and inflation impact would probably require tighter monetary policy**
- **BCB still signals another 75bp increase in May; we maintain our call for SELIC at 5.5% by year-end**
- **Inflation is set to remain elevated in the short term**
- **CAD narrowed further, while FDI came in stronger than expected**

With public and private health systems on the verge of collapse in major cities, the evolution of the pandemic and vaccination speed take center stage for markets and policy decisions. Recent BCB communication reinforces the outlook of another 75bp hike at the next meeting, but the terminal SELIC rate still depends on the evolution of the balance of risks. In the short term, inflation should remain high, which may rekindle fears of breaching the upper bound of the IPCA target range this year. At the same time, the alternative inflation projections published by the BCB show the drag from COVID-19 overpowered by the inflation boost from fiscal risks. At this point, the rise in COVID-19 cases and deaths (Figure 1) could curb services demand, but it also increases fiscal and political risks, which should require higher rates as we expect. Supply constraints are already affecting the manufacturing sector with shortages of inputs, which could also generate price pressures.

Figure 1: COVID-19 deaths

New, per day and 7-day average

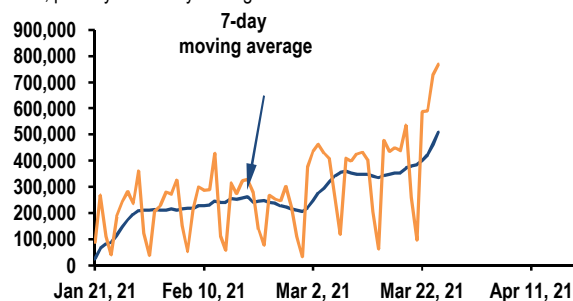


With vaccinations only now starting to pick up, but from low levels and with delays in the delivery of new vaccines (Figure 2), Congress leaders demanded a meeting with President Bolsonaro and members of the cabinet and state governors to try to devise a strategy to control the pandemic. The situation is heightening tension between Congress and the president, with the speaker of the Lower House warning that if there is no

correction in the pandemic trend the "Congress' political remedies are well known, all of them are bitter. Some are even fatal." (See "Lira cobra reação do governo Bolsonaro na crise e ameaça com 'remédios amargos' do Congresso, 'alguns fatais'," *O Estado de S. Paulo*, March 25, 2021.)

Figure 2: COVID-19 vaccines, total shots

New, per day and 7-day average



BCB reinforced message of partial normalization

This week, the COPOM communicated with markets through the minutes of last week's meeting, the Quarterly Inflation Report (QIR), and the post-report interview. Overall, the communication reinforced the base case of a 75bp hike at the next meeting, with Governor Campos stressing that only a meaningful change of the outlook would modify this signal, raising the bar for alternative scenarios.

Beyond the next meeting, the signals were more mixed, reinforcing that decisions will depend on the BCB's assessment of the balance of risks. It seems that the risk of breaching the 2021 inflation target ceiling (a 41% chance, according to the 1Q IR) convinced the Committee that the extraordinary monetary policy stimulus of 2020 is no longer appropriate, which would suggest raising the SELIC rate to at least to 4.25%, the level at which the COPOM started calling the monetary stimulus extraordinary. However, BCB communication reinforced that the central bank still aims to only partially normalize the SELIC rate, which according to Governor Campos would suggest a terminal rate below the neutral level, which the 1Q Inflation Report suggests is around 6.5%.

The communication then provided a SELIC range where the central bank aims to pause the current tightening cycle under current conditions. At this point, the central bank's baseline scenario suggests that the SELIC rate would end this year closer to 4.25% than to 6.5%. A 50bp hike in March, as markets expected, and the SELIC ending the year at 4.5%, would leave the 2022 inflation projection exactly at the 3.5% target for next year.

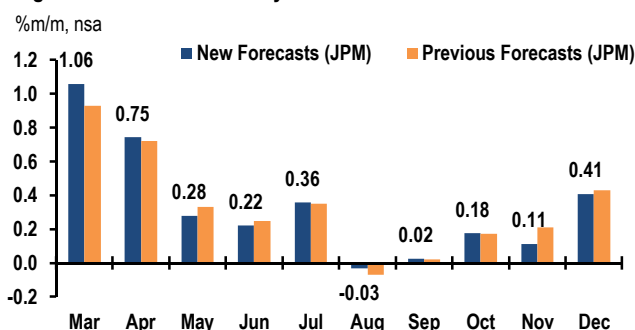
We judge that near-term inflation dynamics could continue to raise concerns over the odds of breaching the ceiling of the target range this year, which potentially could de-anchor medium-term expectations amid rising fiscal and political risks. This prospect will compel the BCB to tighten further than implied in its baseline projection, in our view. In this sense, we continue to see the SELIC rate closer to neutral at the end of the year, with four 50bp hikes at the June, August, September, and October meetings, leaving the terminal rate of this cycle at 5.5%.

Another high inflation print, as expected

The IPCA-15 rose 0.93% in March, matching our forecast, with the core IPCA-15 up 0.41%/m/m, 1bp above our estimate. As expected, the spike was concentrated in fuel prices, but significant upward pressure is evident in both headline and core inflation. IPCA-15 inflation accelerated to 5.5%oya, from 4.6% in February and core IPCA-15 inflation from 3.1% to 3.3%.

As the surge in fuel prices has been stronger than we expected, we raised our short-term inflation forecast, lifting our estimate of the March IPCA increase from 0.93%/m/m to 1.06%. But even after the recent announcement of gasoline price cuts, we continue to look for around 0.75%/m/m inflation in April, a still elevated figure, followed by some slowing in monthly sequential readings thereafter (Figure 4).

Figure 4: Short-term monthly inflation forecasts in 2021



Source: J.P. Morgan forecasts

Short-term inflation readings, in our view, [suggest IPCA inflation will end the year above our 4.5% projection](#), but we keep our December 2021 forecast unchanged. In fact, it seems that domestic wholesale goods prices eased very recently, as we embedded in our forecast, but the new leg of BRL depreciation could put upward pressure on domestic goods prices.

Stronger intercompany loan inflows in Feb

The February balance of payments report indicates that Brazil's external accounts remain solid with some positive surprises from investment flows, which we expect to continue.

The current account deficit (CAD) came in at in February, down from US\$7.3bn in January, close to our forecast and the market consensus (US\$2.4bn), reducing the 12-month deficit to US\$6.7bn (0.5% of GDP) from US\$9.2bn in January.

The most interesting surprises in February were in the financial account. Foreign direct investment (FDI) posted a US\$9.0bn net inflow, far above our forecast (US\$5.5bn) and the market consensus (US\$6.4bn), raising the 12-month FDI inflow to US\$39.8bn (2.8% of GDP). Strong intercompany loans drove the result. Portfolio investment marked the seventh consecutive surplus, at US\$3.8bn.

Data releases and forecasts

Week of March 29 – April 2

Wholesale prices (IGP-M)					
Tue		Dec	Jan	Feb	Mar
Mar 30					
6:00am	%m/m	0.96	2.58	2.53	2.98
	%oya	23.14	25.71	28.94	31.15
National unemployment rate					
Wed			Oct	Nov	Dec
Mar 31					Jan
7:00am	Rate, 3-month average (nsa)		14.3	14.1	13.9
					14.0
Fiscal sector					
Wed	Minus denotes surplus				
Mar 31					
8:30am		Nov	Dec	Jan	Feb
	BRL bn				
	Primary	18.1	51.8	-58.4	26.7
	12-month sum, as % of GDP				
	Primary	9.0	9.5	9.4	9.5
	Nominal	13.2	13.7	13.7	13.7
	Net debt, % of GDP	61.7	63.0	61.6	61.7
Industrial production					
Thu			Nov	Dec	Jan
Apr 1					Feb
7:00am	%m/m, sa		1.1	0.9	0.4
	%oya, nsa		2.6	8.3	2.0
					1.4

Review of past week's data

Consumer prices (IPCA-15)

	Jan	Feb	Mar
%m/m	0.78	0.48	0.93
%oya	4.30	4.57	5.52

Current account balance

	Dec	Jan	Feb	
Current account (CA)	-5.3	-7.3	-2.4	-2.3
CA, 12-month sum	-12.5	-9.4	-7.4	-6.9
CA, 12-month sum, %GDP	-0.9	-0.7	-0.5	
Foreign direct investment	0.7	1.8	5.5	9.0

Source: BCB, FGV, IBGE, and J.P. Morgan forecasts

Argentina

- **Minister Guzman's trip to US had no relevant takeaways amid prolonged uncertainty on IMF negotiations**
- **Investment accelerated in 2H20, mainly involving imported M&E and transportation equipment**
- **Fiscal dynamics are improving on stronger tax collection, but no structural fiscal consolidation**

The focus this week was on Minister Guzman's trip to Washington DC, where he met with IMF MD Georgieva and staff officials. While both parties stated that the meetings were constructive, there was no relevant news on progress in program negotiations or on the timing for an IMF deal. Meanwhile, Vice President Cristina Kirchner stated the country has no means to meet IMF obligations and called for a tailor-made program involving a longer repayment period and lower interest rates than an EFF.

The prolonged uncertainty about IMF negotiations and the lack of a comprehensive macroeconomic program continue to weigh on the country's asset prices, amid the perception of growing tensions within the government coalition.

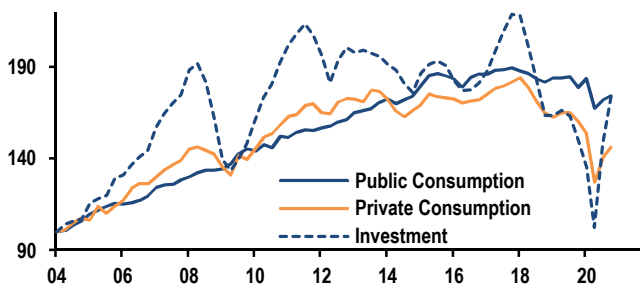
While the latest data show that investment accelerated in 2H20 and fiscal dynamics improved, as we highlight below, the current macroeconomic template suggests an unstable equilibrium amid growing monetary/FX imbalances and rampant inflation.

Explaining the 2H20 investment pickup

Real GDP rebounded 19.4%q/q, saar in 4Q20, in line with monthly economic indicators released earlier. As a result GDP contracted -9.9%/y/y in 2020. Equally important, real GDP printed 4.7% below the 4Q19 level and 11.1% below the cyclical peak observed in 4Q17.

Figure 1: Demand components

lvl, sa , Mar 2004=100



Source: INDEC and J.P. Morgan

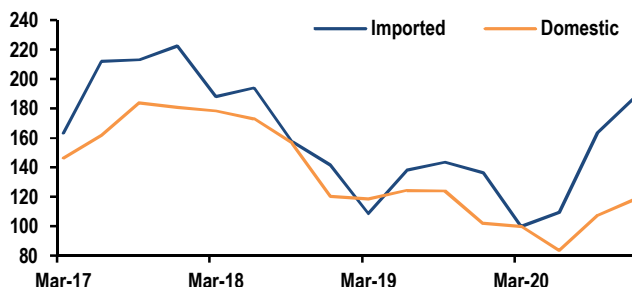
The demand side breakdown showed all components gaining in 4Q20, except for exports. But the component that grew the most was investment, which surged 89.3%q/q, saar, adding 3.0%-pts to the quarterly GDP growth (Figure 1). On the external front, imports shot up 69.6%, while exports plunged 30.6%q/q, saar in the fourth straight quarterly contraction.

The report raises a couple of interesting discussion points: First, investment has been spearheading the recovery even though the macroeconomic framework is not supportive of medium- and long-term capex. Second, the downtrend in real exports and the acceleration of imports is concerning. Below we articulate the reasons for these two developments.

The investment recovery has been explained mostly by construction, but also investment in machinery and equipment (M&E) and transportation equipment. In fact, relative to 1Q20, spending on transportation equipment surged 66% sa, M&E investment 41% sa, and construction 36% sa. But, breaking down both M&E and transportation equipment investment into spending on domestic and imported goods, we note that imports grew the most, by 88.3% sa, compared with 18.6% for domestic capex (Figure 2).

Figure 2: M&E and transportation equipment

Index, sa by J.P. Morgan , Mar 2020=100



Source: INDEC and J.P. Morgan

As we have discussed in prior research, prevailing capital controls serve as a strong incentive for importers to access the lower (official) FX level to import durable (investment) goods, while it strongly discourages exports. In our view that is exactly the explanation for the surprising real investment performance.

Moreover, it also helps to explain the marked fall in real net exports to a 5% of GDP deficit in 4Q20, an imbalance that is unsustainable and misaligned with the cyclical position of the economy.

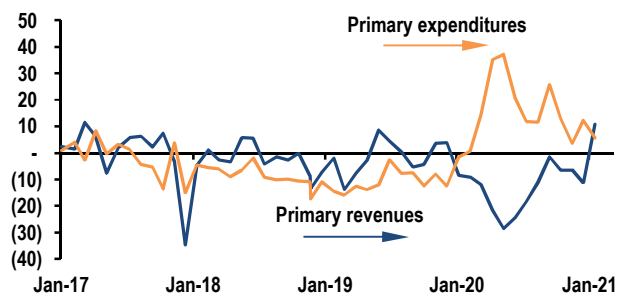
Improving fiscal dynamics on stronger tax collection

The Treasury reported a ARS19bn primary fiscal deficit in February, a bit below our expectations (ARS35bn) and down from a ARS27.5bn deficit in same month last year. Meanwhile, the overall deficit (including interest payments) printed at ARS64bn (0.2% of GDP, from a 0.3% shortfall in February 2020).

In line with the January outcome, stronger-than-expected tax collection mainly explained the outperformance, with primary revenues up by 6.3%oya in real terms (8.7%oya YTD). Indeed, real tax revenues surged 25.3%oya in February, on the heels of a 29.9% jump in January, fueled by export tax revenues, personal goods, and income tax collection (see [“February tax collection again boosted by export revenues”](#)). On the other side, all other revenue categories remained in the red.

On the spending side, real primary spending growth eased to 2.1%oya, from 7.1% average growth in the prior three months (Figure 3). In the same vein as revenues, we observe divergent trends across categories. Social security spending continues to drive most of the deceleration. However, we expect this trend to reverse in March, as the government approved an 8.1% increase in pensions as part of the new pension adjustment formula. Meanwhile, capital and subsidies spending remain upbeat, increasing by 48.5% and 27.4%oya in real terms, respectively in February.

Figure 3: Primary revenues and expenditures
 %oya, in real terms



Source: Ministry of Treasury and J.P. Morgan

In all, cyclical fiscal dynamics have improved amid an increase in the tax burden and commodities prices momentum, but the government has not accomplished any structural fiscal consolidation. In March, we expect tax collection momentum to continue, as the Treasury sources revenues from the extraordinary wealth tax. We expect around ARS200bn (0.5% of GDP) from wealth tax collection, well below the government's estimate (ARS300bn), the bulk of which we expect will be raised by the end of March or the beginning of April. Yet, we acknowledge that judicial claims could result in lower-than-expected collection.

As we highlighted in prior [research](#), we see scope for the government to reduce the primary deficit to 3.5%-4.0% of GDP this year from 6.5% in 2020. The main risks to our forecast include (1) higher COVID-19 spending amid delays in vaccination and a second COVID-19 wave as we enter the winter, (2) lower-than-expected energy tariffs increases resulting in higher subsidies (we already anticipate a 0.6%-pt increase in subsidies this year), and (3) faster than expected growth in capital and social spending in 2H20 amid the electoral cycle.

Data releases and forecasts

Week of March 29 – April 2

Current account balance					
Tue		1Q20	2Q20	3Q20	4Q20
Mar 30	US\$bn	0.3	2.9	1.2	<u>0.6</u>

Economic activity					
Tue		Oct	Nov	Dec	Jan
Mar 30	%oya	-7.3	-3.7	-2.2	<u>-2.8</u>
	%m/m	1.2	1.4	0.9	<u>-0.5</u>

Review of past week's data

Budget balance				
	Dec	Jan	Feb	
ARSbn	-307.6	24.1	<u>-35</u>	19

GDP				
	2Q20	3Q20	4Q20	
%oya	-19.0	-10.2	<u>-4.4</u>	-4.3

Unemployment rate				
	2Q20	3Q20	4Q20	
%oya	13.1	11.7	<u>12.0</u>	11.0

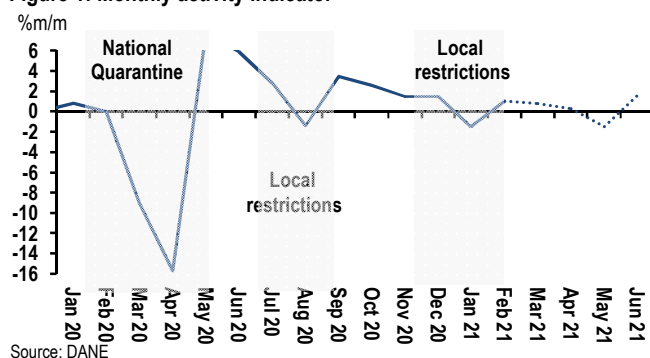
Source: INDEC and J.P. Morgan forecasts

Colombia

- January's activity pothole wasn't as deep as feared despite lockdowns
- We are conservative on quarterly growth in 2021, but strong carryover still lifts full-year forecast to 7.5%/y
- An upsurge in COVID-19 cases the main risk to forecast
- Narrower output gap, more upside to inflation

January's economic activity indicator (ISE) printed in line with Bloomberg consensus expectations, declining 1.5%/m, sa and 4.6%/oya, but stronger than our own more conservative forecast for a 2%/m, sa drop (-4.9%/oya). Since January, mobility restrictions have fallen away and the high-frequency data, including energy demand, Google mobility, car sales imports, and trucking cargo, have pointed to an upshift after February. As a result, we feel more comfortable projecting renewed traction in the forthcoming ISE prints (we pencil in a 1%/m gain in February and 0.8% in March)—results that, if realized, would swing the 2%/q, saar contraction we had penciled in for 1Q into expansion territory at 3.5% (Figure 1). Taking this forecast into account and barring another hard stumble, the path of least resistance statistically is higher growth than our forecast.

Figure 1: Monthly activity indicator

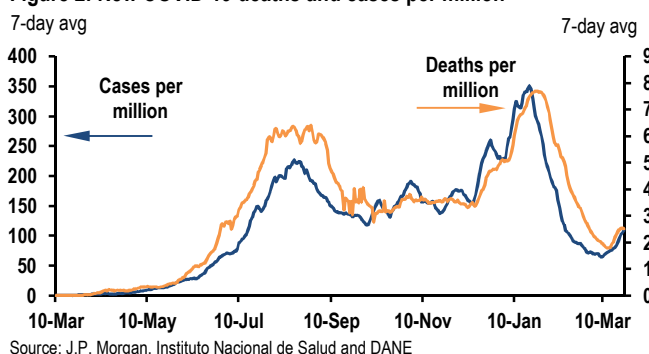


Looking ahead, we maintain a cautiously conservative view on 2Q21, where we are braced for another possible set of restrictions from a third wave. We think that 2H21 will be a period of generalized recovery benefiting from the ongoing fiscal and monetary support, terms of trade gains, and vaccinations reactivating lagging sectors. This profile lifts our full-year 2021 growth forecast from 5.8%/y to 7.5%/y driven largely by significant statistical carryover from 2H20.

The main risk on the horizon is another surge in COVID-19 cases before vaccinations can catch up, especially as variants become more prevalent. COVID-19 cases have decelerated

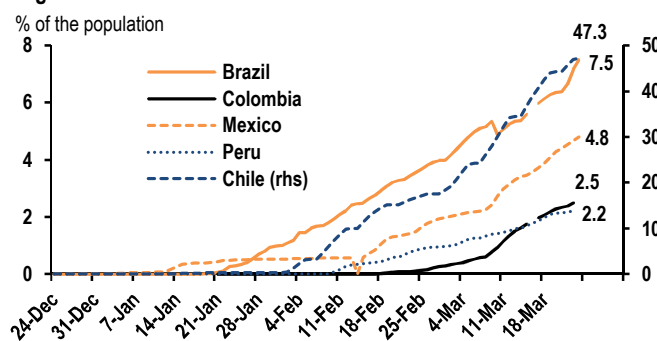
sharply from the highs, though cases turned up again in early March (Figure 2). While ICU occupancy has returned to lower levels, local officials could still contemplate restrictions around the Holy Week holidays to avoid another Christmas-style wave of infections. Restrictions on gatherings and religious ceremonies have already been announced in Bogota, yet authorities have not turned to the same sector or mobility restrictions as in August or January.

Figure 2: New COVID-19 deaths and cases per million



Colombia's vaccination program finally got underway at the end of February and is ramping up as more vaccine doses are delivered (Figure 3). Colombia has secured about 61.5 million doses, enough to vaccinate 35 million adults or 70% of the total population. Implementation of the vaccination program will depend on local and global supply constraints, but we expect a stronger ramp-up by the end of 2Q.

Figure 3: Vaccinations in LatAm



On the demand side, our new forecast implies stronger household and government consumption, supported in part by confirmation that the government will not put the brakes on fiscal support just yet, but rather keep its foot on the gas (Table 1). The investment recovery would be backed both by rebounding private fixed capital formation and stock-building, but also by the government's stepping up public investment. A rising terms of trade would also support domestic demand by boosting incomes.

Table 1: Real GDP by demand-side breakdown (%oya, nsa)

	2018	2019	2020	2021f	2022f
Real GDP	2.6	3.3	-6.8	7.5	3.6
Domestic demand	3.5	4.1	-7.6	8.3	4.1
Consumption	4	4.2	-4.1	7.3	3.5
Household consumption	3.2	3.9	-5.8	8	5
Government consumption	7.4	5.3	3.7	4	2.5
Gross capital formation	1.5	3.8	-21.2	12.9	6.6
Fixed capital formation	1	3.1	-21.1	11.6	7.5
Exports	0.6	3.1	-17.4	10	5
Imports	5.8	7.3	-18	13	7

Source: DANE and J.P. Morgan

However, our forecast acknowledges that the flip side of more fiscal support this year should be a more credible consolidation effort next year, and we trim our 2022 GDP growth forecast to 3.6% from 4.8% before. We anticipate a policy-induced slowdown in 1H22, but we also put more of the pickup from widespread vaccination progress into 4Q21 (from 1Q22 before).

More upside risks to inflation

Stronger growth also implies a slightly less negative output gap than we had previously estimated, which adds another source of upside risk to our 2.7% forecast for 2021 inflation. We had already flagged several potential sources of upside risk including energy prices, education, and core goods and services. In the short term, after the government announced a 2.3% m/m fuel price hike and public utilities announced high electricity prices, we have raised our March CPI inflation forecast to 0.37% m/m and 1.37% oya from 0.25% and 1.25%. Wholesale food prices remain stubbornly high and could also push up the March CPI if passed through. We have chosen not to incorporate higher food prices, as wholesale prices and the CPI tend to diverge leading up to and during the Easter holidays. A higher March print mechanically adds upside risk to our year-end forecast as well.

However, as we said after the February release, we would also like to take the temperature of the push-pull between apparent supply dislocations that could pressure core prices in the short term and a (still) negative output gap in March's print. February's upward surprise showed some evidence of supply dislocation (on top of delayed payback on good prices from November's sales), but the January CPI hinted that excess capacity could be dominant this year. The lockdowns in January, and subsequent reopening in February, add risk; we await the March CPI, released on April 5, to reassess our forecast. Our bias at this stage is to revise up core inflation slightly, which, along with our higher March CPI, would raise December inflation close to 3%.

Chile

Data releases and forecasts

Week of March 29-April 2

Policy rate					
Tue		Jan	Feb	Mar	Apr
Mar 30	%	0.5	0.5	0.5	<u>0.5</u>
Unemployment rate					
Wed		Nov	Dec	Jan	Feb
Mar 31	%	10.8	10.3	10.2	<u>10.0</u>
Retail sales					
Wed		Nov	Dec	Jan	Feb
Mar 31	%	24.8	9.7	5.8	<u>3.2</u>
Manufacturing production					
Wed		Nov	Dec	Jan	Feb
Mar 31	%	-1.2	0.4	-4.4	<u>1.5</u>
Economic activity					
Thu		Nov	Dec	Jan	Feb
Apr 1	%	1.2	3.6	1.3	<u>-1.5</u>

Review of past week's data

No data released.

Source: INE, BCC, and J.P. Morgan estimates

Colombia

Data releases and forecasts

Week of March 29 – April 2

Unemployment rate					
Thu		Nov	Dec	Jan	Feb
Mar 31	%	13.3	13.4	17.3	
Review of past week's data					
BanRep policy rate					
		Jan	Feb	Mar	
%		1.75	1.75	<u>1.75</u>	1.75

Source: DANE, BanRep and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of March 29-April 2

BanRep policy rate					
Thu		Dec	Jan	Feb	Mar
Apr 1	%m/m	0.05	0.74	-0.13	<u>0.62</u>
	%oya	1.97	2.68	2.40	<u>2.36</u>

Review of past week's data

No data released.

Source: INEI and J.P. Morgan estimates

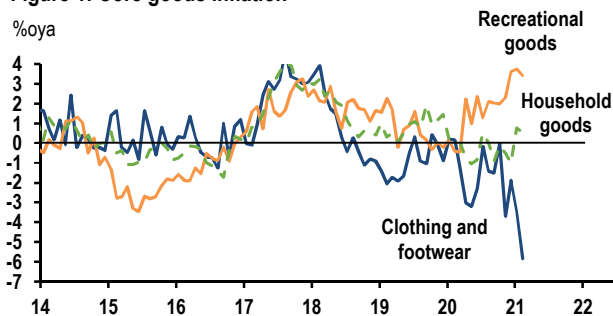
United Kingdom

- **Labor market shows fall in unemployment rate; signs of a recovery in hiring**
- **Sharp drop in core inflation likely to be temporary**
- **PMI moved up despite lockdown to hint at strong growth rebound to come**

The labor market report showed the unemployment rate dropping back from 5.1% to 5.0% in the three months to January. The LFS household survey reported a 147k drop in employment over the same period, an acceleration from late last year to -1.8% annualized. But a sharp decline in the active labor force prevented this from pushing the unemployment rate higher. The lockdown likely is responsible for the reported decline in participation and is keeping a lid on rises in the unemployment rate. Moreover, the unemployment rate is also being held down by some five million people who are currently furloughed and hence still employed.

The underlying trajectory for unemployment is likely higher but will not become clear until later this year when the economy has reopened and government job schemes are scaled back. We look for the unemployment rate to rise further from here and peak at just above 6% in 4Q, although fewer-than-expected job losses to date together with the economy's resilience during the latest lockdown suggests risks to this estimate may be to the downside. The expected upward path of the unemployment rate this year is one reason why the BoE is minded to remain patient as growth surges.

Figure 1: Core goods inflation



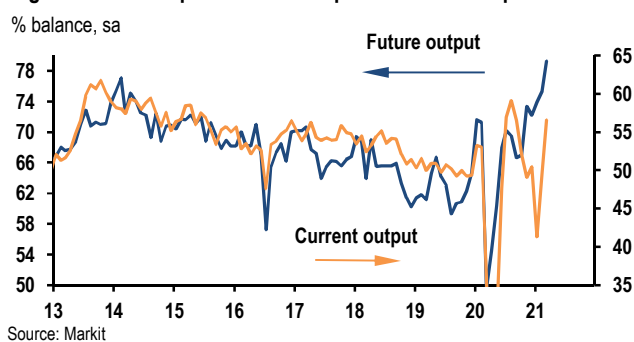
In February, CPI inflation unexpectedly fell from 0.7%oya to 0.4%oya, versus our and consensus expectations for a one-tenth rise. The surprise came almost entirely from core inflation, which dropped sharply from 1.4%oya to 0.9%oya, and from goods in particular. Some prices that had been running hot during the pandemic came off the boil, including recreation and cultural goods and second-hand cars, while transport services also slowed more than expected. But the main cul-

prit, responsible for around half of the drop in headline, was a nose-dive in clothing and footwear inflation from -3.5%oya to -5.8% on a 1.6% m/m fall in prices (Figure 1). This drop reflects a shift in seasonal discounting patterns related to the pandemic and is likely to be temporary.

We expect the inflation path to be volatile this year, although with the trend firmly upwards. Core goods inflation is likely to begin normalizing from April and into the summer. Higher VAT from October will lift services inflation and energy prices are set to move up sharply from April. This leaves us with a forecast that shows CPI inflation breaking above 2% toward the end of the year, with core returning to just under the target by 2H21. Compared to our previous forecast, the return of CPI inflation to 2% occurs later in the year (due to the initial setback from clothing prices) and overshoots by less (as we assume that some of the weakness in January goods prices will be sustained). While inflation now looks likely to undershoot the BoE's February forecast in the near term, the rise in energy prices and a lower unemployment trajectory means the BoE will probably still have to raise its forecasts from the second half of this year.

The flash PMI for March marked a 7pt surge in the composite output reading from 49.6 to 56.6. While manufacturing gained almost 3pts, the bulk of the surprise came from services. The output and orders readings increased comparably, while employment rose almost 3pts to 52.5 in a hint that hiring is also turning a corner. Most notably the reading on year-ahead expectations of future output—which already was at a seven-year high—increased another 4pts to hit a new series high of 79.3. Given there was only a modest relaxation of restrictions in March, and a corresponding small rise in mobility, it appears the main driver of the jump in the PMI is sentiment. This adds weight to the argument for expecting a very strong growth rebound over the summer, provided harmful new variants are held at bay.

Figure 2: PMI composite future output and actual output



Data releases and forecasts

Week of March 29 – April 2

Mon Mar 29 9:30am	Money supply Sa	Nov	Dec	Jan	Feb
	M4 ex IOFCs (%m/m)	1.3	0.5	1.2	
	M4 ex IOFCs (%3m/3m, ar)	13.6	13.7	12.8	
	M4 (%m/m)	0.9	0.6	0.7	
	M4 (%oya)	12.9	13.5	13.3	
	M4 lending (%m/m) ¹	0.7	0.2	-0.4	
	M4 lending (%oya) ¹	4.2	3.9	3.9	

¹. Excludes the effect of securitization.

Mon Mar 29 9:30am	Net lending to individuals (BoE release) £ bn, average	Nov	Dec	Jan	Feb
	Consumer credit (ch, m/m)	-1.5	-0.9	-2.4	
	Mortgage approvals (000s, sa)	105.0	102.8	99.0	
	Secured lending (ch, m/m)	5.6	5.3	5.2	

Wed Mar 31 7:00am	Nationwide house price index Sa	Dec	Jan	Feb	Mar
	%m/m	0.9	-0.2	0.7	
	%oya	7.2	6.4	6.9	
	%3m/3m saar	12.6	9.5	7.8	

Wed Mar 31 9:30am	Real GDP (second estimate) Sa	2Q20	3Q20	4Q20 ¹	4Q20
	Total GDP:				
	%q/q, sa	-19.0	16.1	1.0	
	%oya, sa	-21.0	-8.7	-7.8	
	%q/q, saar	-57.0	81.9	4.0	
	Breakdown (%q/q, sa):				
	Private consumption	-21.0	19.3	-0.2	
	Public consumption	-14.8	12.9	6.4	
	Fixed investment	-20.5	20.3	2.1	
	Business investment	-22.1	14.5	1.3	
	Exports	-10.4	-1.1	0.1	
	Imports	-20.3	13.3	8.9	
	Household saving rate (%)	26.5	16.5		
	Disposable income (%q/q, saar)	-14.1	22.7		

¹. First estimate

Thu Apr 1 9:30am	PMI survey final, manufacturing % balance, sa	Dec	Jan	Feb	Mar
	Overall index	57.5	54.1	55.1	<u>57.9</u>
	Output	55.9	50.7	50.5	<u>55.6</u>

Thu Apr 1 12:01am	BCC quarterly economic survey Index	2Q20	3Q20	4Q20	1Q21
	Manufacturing- Deliveries	-59	-15	-9	
	Manufacturing- Prices	12	20	27	
	Services- Deliveries	-64	-25	-24	
	Services- Prices	5	14	15	

Review of past week's data

Labor market statistics

Sa	Average weekly earnings (3mma %oya sa)	Nov	Dec	Jan
	Headline	3.7	4.7	4.8
	Ex bonuses	3.6	4.1	4.2
	Private sector ex bonuses	3.3	4.0 3.9	4.0
Sa	Labor force survey (all percentage rates, sa)	Nov	Dec	Jan
	Three months to:			
	Activity rate	63.8	63.6	63.4
	Employment rate	60.6	60.3	60.3
	Unemployment rate	5.0	5.1	<u>5.2</u> 5.0
	- single month	5.0	5.1	<u>5.2</u> 4.9
	Change over three months to:			
	Employment (000s)	-88	-114	-148

CBI industrial trends

% balance	Jan	Feb	Mar
Total order book	-38	-24	-5
Output expectations	-24	-2	30
Output prices	4	3	20

Retail prices

%oya	Dec	Jan	Feb
CPI	0.6	0.7	<u>0.8</u> 0.4
Core CPI ¹	1.4	1.4	<u>1.4</u> 0.9
RPI (1987=100)	295.4	294.6	<u>296.5</u> 296.0
RPI	1.2	1.4	<u>1.5</u> 1.4

¹. CPI ex food, energy, alcohol, and tobacco.

PMI survey flash, manufacturing

% balance, sa	Jan	Feb	Mar
Overall index	54.1	55.1	57.9
Output	50.7	50.5	<u>51.0</u> 55.6

PMI survey flash, services & composite

% balance, sa	Jan	Feb	Mar
Services business activity	39.5	49.5	<u>52.2</u> 56.8
Composite	41.2	49.6	<u>52.0</u> 56.6

CBI survey of distributive trades

% balance	Jan	Feb	Mar
Volume of retailer sales	-50	-45	-

Retail sales

Volumes, sa	Dec	Jan	Feb
Including auto fuel (%m/m)	0.3 0.4	-8.2	2.2
Ex auto fuel			
(%m/m)	0.5 0.6	-8.7	2.4
(%oya)	6.7	-3.8	-1.1
(%3m/3m saar)	3.7 3.5	-15.0 -15.3	-22.0

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

Emerging Europe

- Czech Republic: CNB stayed put and softened communications

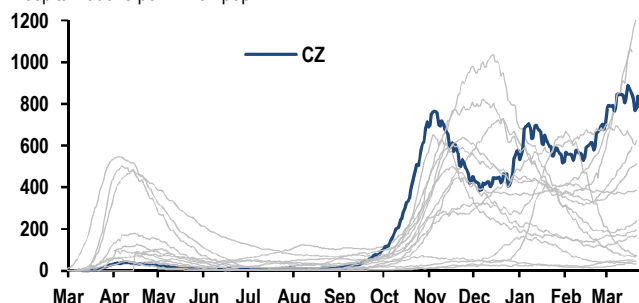
Czech Republic: CNB on hold for now

As widely anticipated, the CNB left its policy rate unchanged at 0.25% in a unanimous decision (7-0) this week. The tone of the communication softened considerably relative to previous meetings, suggesting that the frontloaded tightening foreseen in the staff forecast (87bp in 2021, starting from 2Q) is unlikely to materialize, as we have been arguing. The statement characterized risks to the forecast as “very substantial” due to the lingering pandemic, which could “lead to a need to keep the monetary conditions accommodative for rather longer than in the forecast.” In the press conference, Governor Rusnok revealed that most on the board see premature tightening as a potentially bigger mistake than a delayed start to the hiking cycle and that starting to tighten later would not have any irreparable consequences.

Together with Hungary, the Czech Republic is spearheading Europe’s third wave of COVID-19 (Figure 1), which has triggered renewed tightening of restrictions or stricter enforcement of pre-existing ones. Risks to the growth outlook are clearly skewed to the downside in 1H21, as a slow vaccination roll-out is unlikely to allow for sustained reopening of the economy in the near term. On the inflation front, we expect core CPI inflation to nosedive toward the target around the middle of the year, as one-off supply shocks from last year’s first lockdown-reopen sequence fade. If confirmed, this trend likely will further soften the CNB’s hawkish drive. We see the CNB putting hikes on the table only when mass vaccination is within reach, which, assuming no further delays, we envisage during 3Q21. Hence, we forecast a first 25bp hike in November, followed by two additional hikes in 2022. An earlier start in 3Q21 is possible, but much less likely in our view.

Figure 1: Hospitalizations in Europe

Hospitalizations per million pop.



Source: ECDC, National health authorities

Data releases and forecasts

Week of March 29 – April 2

Czech Republic:

Thu Apr 1 9:00am	Real GDP, final %oya unless otherwise stated				
		1Q20	2Q20	3Q20	4Q20
	Real GDP, swda	-1.8	-10.8	-4.9	<u>-4.7</u>
	%q/q saar	-12.0	-30.5	31.6	<u>2.4</u>
	Private consumption	-0.2	-8.5	-3.7	<u>-8.3</u>
	GFCF	-4.3	-5.1	-10.9	<u>-12.2</u>
Thu Apr 1 9:00am	PMI Index				
		Dec	Jan	Feb	Mar
	PMI, Manufacturing	57.0	57.0	56.5	<u>58.8</u>

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:

Mon Mar 29 9:00am	External trade, final EUR mn				
		Oct	Nov	Dec	Jan
	Trade balance	879	800	398	<u>830</u>
	Ytd	4597	5397	5795	<u>830</u>
	Ytd a year ago	3906	4235	4334	<u>412</u>
	Exports, %oya	0.2	7.6	11.0	<u>-5.4</u>
	Imports, %oya	-4.9	2.7	7.1	<u>-10.4</u>
Wed Mar 31 9:00am	Average gross wages %oya				
		Oct	Nov	Dec	Jan
	Gross wages, nominal	8.8	8.6	10.6	—
	Industry	8.7	7.4	10.5	—
	Public sector	7.4	8.1	7.0	—

Thu
Apr 1
%
NBH 1-week deposit facility rate decision

On hold: 0.75%

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Poland:

Wed Mar 31 2:00pm	Consumer prices, preliminary %oya, unless otherwise stated				
		Dec	Jan	Feb	Mar
	All items	2.4	2.6	2.4	<u>2.8</u>
	%m/m, nsa	0.1	1.3	0.5	<u>0.6</u>
Thu Apr 1 9:00am	PMI Index				
		Dec	Jan	Feb	Jan
	PMI, Manufacturing	51.7	51.9	53.4	<u>54.8</u>

Source: NBP, National Statistics, Eurostat, Markit, J.P. Morgan forecasts

Russia:

Wed
Balance of payments, final

J.P. Morgan Bank International LLCAnatoliy A Shal (7-495) 937-7321
anatoliy.a.shal@jpmorgan.comYarkin Cebeci (44-20) 7134-7547
yarkin.cebeci@jpmorgan.comJosé Cerveira (44-20) 7742-3556
jose.a.cerveira@jpmorgan.comNicolae Alexandru-Chidesciuc (44 20) 7742-2466
nicolaie.alexandru@jpmorgan.com**Economic Research****Global Data Watch**

March 26, 2021

J.P.Morgan

Mar 31 US\$ bn

5:00pm

Current account balance

1Q20 2Q20 3Q20 4Q20

22.9 0.9 3.2 5.5

Goods balance

33.2 16.5 18.3 24.1

Exports %oya

-13.0 -30.5 -24.0 -16.9

Imports %oya

0.8 -13.0 -7.9 -2.9

Service balance

-6.8 -2.2 -3.9 -5.9

NBH rate decision

%

This week the NBH meeting was rather uneventful, with rates on hold at 0.60% as expected and the same cautious message—a mirror of recent months'. On QE and other unconventional tools, the NBH provided no new guidance, reiterating its intention to continue expanding its balance sheet permanently.

Thu PMI surveys

Apr 1
10:00am

PMI, Manufacturing

Dec Jan Feb Mar

49.7 50.9 51.5 52.0

PMI, Services

48.0 52.7 52.2 54.0

NBH 1-week deposit facility rate decision

%

NBH held the 1-week depo rate at 0.75%, as expected.

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Thu Real GDP

Apr 1

%oya, 2008 prices

1Q20 2Q20 3Q20 4Q20

Real GDP, nsa

1.6 -8.0 -3.4 -3.0

%q/q, saar

-1.6 -29.0 24.0 2.25

Turkey:**Capacity utilization**

%

Jan Feb Mar

Total manufacturing 75.4 74.9 74.3 74.7

Durables 73.8 76.8 75.0 73.0

Nondurable 70.6 70.6 70.2 70.6

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

Source: Rosstat, MinFin, AEB Russia, Markit, J.P. Morgan forecasts

Turkey:

Wed Foreign trade

Mar 31

US\$ bn, except as noted

10:00am

Trade balance

Nov Dec Jan Feb

-4.6 -4.1 -3.5 -3.5

Exports

15.3 16.9 14.3 15.1

%oya

-1.0 15.5 3.1 8.8

Imports

19.9 21.0 17.8 18.6

%oya

12.0 10.6 -3.7 9.4

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

Review of past week's data**Czech Republic:****CNB rate decision**

%

CNB held the policy rate at 0.25%, as expected. See main text for detail.

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:**Balance of payments**

EUR mn

2Q20 3Q20 4Q20

Current account balance -645 -911 807 774 — 125

Trade balance -788 -848 -26 -85 — 308

Exports %oya -23 -22.6 -4 -1.4 — 6.2

Imports %oya -24 -20.3 -6 — -0.3

Service balance 805 588 1455 1407 — 624

Income balance -426 -443 -579 -508 — -638

Current transfers -236 -209 -43 -40 — -169

Fin + cap balance -447 -381 1328 1211 — 1391

FDI, net -434 -588 -198 16 — 855

Portfolio investment -2492 -149 -240 — -2488

Other investment -2834 -2610 -1259 -1306 — 415

South Africa & SSA

- **South Africa: SARB kept the repo rate on hold and surprised with an overall neutral tone**
- **February inflation undershot expectations on lower core inflation; we expect inflation to average 4.1% this year**
- **SSA: Ghana and Nigeria MPCs held policy rates steady**

South Africa: MPC tempered expectations of policy tightening

The MPC kept its policy rate at 3.5% in a unanimous decision this week, as expected, while markets had priced in about a 25% probability of a hike. Notwithstanding better global growth prospects, the SARB expects the pace of the recovery to be uneven, in part tied to the vaccination roll-out (currently at just 0.35% of the population in SA, in our understanding) and rolling electricity cuts that had resumed in March. Local health officials now widely expect a third wave of infections to begin as early as April. The broadly neutral tone of the statement and lower end-2021 QPM-projected repo rate (on the back of softer 2H22 inflation) presented a dovish surprise relative to market expectations.

Regarding the macroeconomic forecasts, the SARB now expects 3.8% GDP growth in 2021 (3.6% before) and an unchanged 2.4% in 2022 and 2.5% in 2023. A large electricity tariff hike and higher oil price assumptions underpinned an upward revision to the 2021 inflation forecast to 4.3% (from 4%), but from 2Q22 through to 3Q23 the inflation profile was tweaked lower as the staff lowered the USD/ZAR input assumption to 14.96 from 15.70. The February CPI release, which surprised markets to the downside on subdued medical insurance and food inflation, was not yet incorporated in the SARB's projections, but could subtract 0.1%-pt from the 2021 core and headline inflation forecast.

We believe risks of a near-term policy rate hike are limited with policy tightening unlikely at the next two meetings, but with risks rising from September onwards. Overall, the bar for policy tightening remains high while the near-term growth outlook in South Africa remains uncertain, the fixed investment recovery has underwhelmed, and fiscal policy is expected to exert a large fiscal drag this year. This increases the SARB's tolerance of moderately negative real rates. Our current policy rate outlook is for two hikes in 1H22, but we see elevated risks from September onwards. Triggers for a September move could be a surprisingly shallow midyear COVID-19 wave with mild mobility restrictions, a move higher in USD/ZAR to 15.75 or beyond, or near-term upside surprises on core inflation.

SSA: Ghana and Nigeria MPCs on hold

Elevated inflation limits the Bank of Ghana's (BoG) room to cut, but we still expect some easing this year. The MPC kept its policy rate unchanged at 14.5% at the March meeting, against our expectations of a 50bp cut, owing to a challenging inflation picture. Headline inflation moved up to 10.3%oya in February, after dipping to 9.9% in January. Food prices continued to moderate, with the February inflation rise mostly driven by higher transport prices. That said, we expect the impact of higher oil prices to prove transitory, and see inflation dropping to single digits in 2H21, due to a relatively stable currency. As a consequence we now expect the BoG to cut 100bp later in the year (150bp previously). However, risks that the policy rate remains unchanged this year are high given the wave of policy rate hikes in EM.

In Nigeria, the Monetary Policy Committee (MPC) left the policy rate unchanged at 11.5% earlier this week, as it continues to ignore rising inflation in favor of "supporting economic activity." That said, we believe the Central Bank of Nigeria (CBN) will allow OMO rates to drift higher in coming months, possibly to around 13% from 10% currently, in an effort to curb inflation. Headline inflation rose to 17.3%oya in February, from 15.8% in December and around 12% in 1Q20. While we expect headline inflationary pressures to ease later this year due to easing food supply constraints and a tighter monetary policy stance, we expect CPI inflation to remain elevated, above the CBN's target. We expect the CBN to hike the policy rate by 100bp later this year.

South Africa

Data releases and forecasts

Week of March 29 – April 2

Tue Mar 30 8:00am	Monetary and credit aggregates				
	%oya, except as noted	Nov	Dec	Jan	Feb
	M3	8.1	9.5	9.2	—
	M0	9.1	3.6	6.9	—
	Private sector credit	3.4	3.6	3.3	—
Tue Mar 30 11:30pm	Quarterly Employment Statistics				
	Nsa	1Q20	2Q20	3Q20	4Q20
	No. of employees (000)	10196.0	9506.0	9581.0	—
	Gross earnings (R bn)	729.4	644.7	680.2	—
Tue Mar 30	Fiscal revenue and expenditure				
	Rand bn	Nov	Dec	Jan	Feb
	Balance	-21.4	-5.1	-76.2	—
	Revenue	99.2	176.4	87.5	—
	Expenditure	120.6	171.3	163.7	—
Wed Mar 31	Trade balance				
	R bn, except as noted				

2:00pm		Nov	Dec	Jan	Feb
	Trade balance	35.3	33.1	11.8	—
Thu	New vehicle sales				
Apr 1	%oya, except as noted				
		Dec	Jan	Feb	Mar
	Total vehicle sales	-10.6	-14.3	-13.7	—
	%m/m nsa	-4.7	-7.0	7.9	—
Thu	Barclays BER PMI				
Apr 1	Index				
11:00am		Dec	Jan	Feb	Mar
	PMI (% weights)	50.3	50.9	53.0	—
	Business activity (25)	44.9	43.5	52.1	—
	New sales orders (30)	45.2	47.2	54.0	—

Review of past week's data

Consumer prices

%oya, except as noted

	Dec	Jan	Feb	
CPI	3.1	3.2	3.2	2.9
%m/m, sa	0.2	0.3	0.9	0.7
Core	3.3	3.3	3.3	2.6

SARB: Policy rate announcement

The SARB kept its policy rate unchanged at 3.5% (see main text).

Source: StatsSA, National Treasury, J.P. Morgan forecasts

SSA

Data releases and forecasts

Week of March 29 – April 2

Kenya	Policy rate announcement				
Mar 29	%				
Kenya	Consumer prices				
Mar 31	%oya				
		Dec	Jan	Feb	Mar
		5.6	5.7	5.8	—

Review of past week's data

Nigeria: Policy rate announcement

The MPC kept its policy rate unchanged at 11.5% (see main text).

Zambia : CPI

%oya	Jan	Feb	Mar	
	21.5	22.2	—	22.8

Source: Haver, J.P. Morgan forecasts

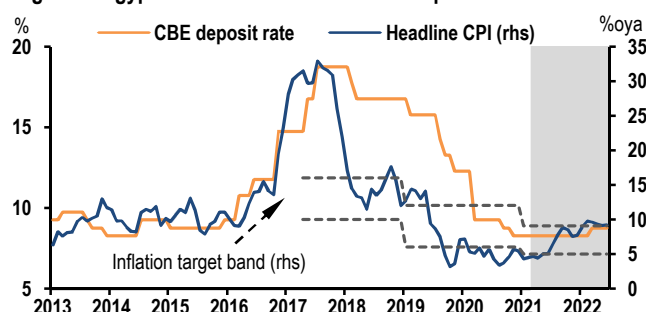
MENA

- **Egypt: Citing low inflation pressure, CBE kept policy rates on hold**
- **Pakistan: The SBP kept its policy rate unchanged at 7.0% at its March MPC meeting**

Egypt: CBE on hold for the third meeting in a row

At its March MPC meeting, the CBE kept the overnight deposit rate, overnight lending rate, and the rate of the main operations unchanged at 8.25%, 9.25%, and 8.75%, respectively. The decision was not a surprise and in line with JPM and consensus forecasts. There was no significant change in the language used in the interest rate announcement and the neutral tone was preserved. This neutral tone along with comfortably high real interest rates and a stable external picture support our call for rates to be on hold for all of 2021 with the first hike in 1Q22 (Figure 1).

Figure 1: Egypt CPI headline and CBE O/N deposit rate



Source: CBE, J.P. Morgan - Shaded area indicates JPM forecast

The CBE sounded content with the weakness of price pressures. More importantly, the Bank does not sound too concerned about the recent rise in global interest rates. We believe this is the case because, with headline inflation at 4.5%oya and core inflation at 3.6%, the CBE already offers quite high real interest rates. In arguably the most important sentence of the note, the CBE stated that “global economic and financial conditions are expected to remain accommodative and supportive of economic activity over the medium term, although global yield curves have steepened recently.” However, we still believe that the risk to our call is for an earlier start to the hiking cycle if inflation recovers earlier than we forecast and/or global financial conditions tighten further.

Despite February’s low inflation print, our profile builds in some price pressures in coming months, particularly toward the start of the next fiscal year (starting in July). In our opinion, the pressure will come from different categories. On the food side,

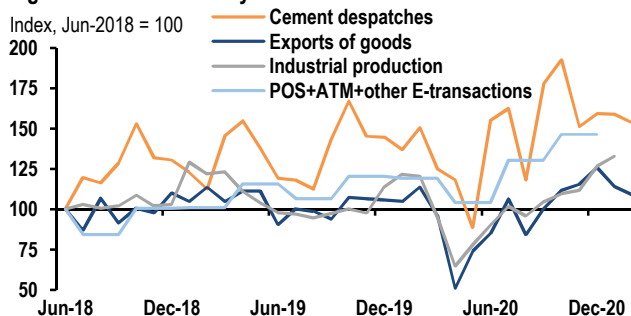
higher international prices have not yet shown up in Egypt’s CPI and we expect at least some to appear in coming months. On the energy side, we expect fuel prices to increase next quarter due to higher Brent prices; however, a strong pound should forestall a large increase. Looking at core, we expect pressure to be gradual as the economy continues to adjust and recover from the pandemic shock. We forecast CPI inflation to average 4.6% in FY21 and 8.6% in FY22.

Egypt’s economy continues to recover despite the outlook hinging on possible further COVID-19 waves. According to the latest estimate from the Ministry of Planning, as also cited in the minutes, GDP grew 2.0%oya between October and December, following a 0.7%oya gain in the first quarter of the current fiscal year and a small 1.7%oya contraction in the last quarter of FY20. The MPC minutes highlighted how domestic consumption continued to support activity, compensating for weak investment and net exports. Looking ahead, uncertainties around the vaccine rollout on the global and domestic stages will still weigh on the outlook with the important tourism sector unable to return to full capacity in 2021. We forecast 3.3% GDP growth in FY21, down from 3.6% in FY20. We expect the economy to accelerate to 5.1% in FY22, in line with pre-pandemic outcomes, as the economy normalizes.

Pakistan: SBP stays on hold and delivers a more dovish message than expected

At its March MPC meeting, the State Bank of Pakistan (SBP) kept its key policy rate at 7.0%. The interest rate announcement had a dovish tone and the key policy guidance pointed toward a preference to hold rates also at the next meeting. As in previous meetings, the MPC “felt that the existing accommodative stance of monetary policy remained appropriate to support the recovery while keeping inflation expectations well-anchored and maintaining financial stability.” In the absence of unforeseen developments, the SBP expects monetary policy settings to remain broadly unchanged in the near term.

Figure 2: Pakistan activity indicators



Source: APCMA, SBP, J.P. Morgan

Despite highlighting the ongoing economic recovery, the SBP believes that capacity utilization is lagging and labor slack

remains. We expect the SBP to raise its policy rate to achieve a low positive real rate once it views the economic recovery as robust. Looking at recent data (Figure 2), it appears that the recovery is well underway and the SBP has upgraded its growth forecast to a 3% expansion in FY21. However, the Bank remains cautious in highlighting how COVID-19 dynamics will play a large role in the outlook and how it will have to remain growth-supportive as fiscal policy will be contractionary.

Our outlook for inflation sees a pickup in coming months with double-digit figures in the last quarter of FY21 resulting in deeply negative real interest rates. After the low 5.7%oya print in January, CPI inflation bounced back to 8.7% in February, the highest reading since October 2020. We now expect inflation to continue to travel higher, with prints potentially reaching double digits in the last months of the current fiscal year, before moderating.

The external picture remains benign and the IMF program would help to reduce pressure, despite wider current account deficits expected in coming quarters. As the economy recovers and remittances begin to ease as temporary pandemic-related effects fade, we expect the C/A deficit to widen. However, the support of multilaterals, with the IMF at the front line, will reduce the pressure from financial flows and allow continued growth in FX reserves. The resulting currency stability should help limit price pressures.

The SBP's dovish tone, alongside low pressure on the rupee and the external accounts, hints at rates remaining on hold in May. However, upside surprises on inflation and/or further tightening in global financial markets that could put pressure on the currency could encourage the SBP to hike rates.

Data releases and forecasts

Weeks of March 29 – April 9

Egypt:

Mon Apr 5 9:00am	PMI Index				
		Dec	Jan	Feb	Mar
	PMI, Composite	48.2	48.7	49.3	—
Thu Apr 8 9:00am	Consumer prices %oya				
		Dec	Jan	Feb	Mar
	%oya	5.4	4.3	4.5	4.6
	%m/m, nsa	-0.4	-0.4	0.2	—
	Core	3.8	3.6	3.6	—
	Food	2.8	-0.5	-0.5	—
	Housing	4.4	4.3	4.7	—
	Transport	4.1	3.6	3.6	—

Saudi Arabia:

Mon Mar 29 10:00am	Balance of payments USD bn				
		Mar	Jun	Sep	Dec
	Current account	2.3	-18.2	2.3	—
	Trade balance	22.5	2.7	15.4	—
	Oil exports	40.0	19.9	28.9	—
	Service balance	-9.4	-12.9	-8.5	—
	Primary income	-1.3	1.2	5.6	—
	Secondary income	-9.5	-9.3	-10.2	—
	Financial account	0.3	-17.6	1.5	—
Wed Mar 31 9:00am	SAMA net foreign assets SAR bn				
		Dec	Jan	Feb	Mar
		1684	1671	1638	—
Mon Apr 5 9:00am	PMI Index				
		Dec	Jan	Feb	Mar
	PMI, Composite	57.0	57.1	53.9	—

Review of past week's data

Egypt:

CBE rate decision

%

On hold. See main text.

External trade

	USD bn				
		Nov	Dec	Jan	
	Trade balance	-3.3	-3.3	—	-3.2
	Exports	2.2	2.8	—	2.5
	Imports	5.5	6.0	—	5.7

Saudi Arabia:

Consumer prices

	%oya				
		Dec	Jan	Feb	
	%oya	5.4	5.7	5.5	5.3
	%m/m, nsa	-0.2	0.2	—	-0.1
	Food	12.8	12.3	—	11.2
	Housing	-1.5	-0.9	—	-2.6
	Transport	6.9	9.5	—	9.9

Real GDP, final

%oya, unless otherwise stated

		2Q20	3Q20	4Q20	
	Real GDP, nsa	-7.0	-4.6	—	-3.9
	%q/q, saar	-19.3	-21.5	7.4	8.3
		—	—	—	10.2

Source: CBE, MoPE, GASTAT, SAMA, Markit, J.P. Morgan forecasts

Australia and New Zealand

- The NZ government has announced sweeping changes to its housing policy, which we expect to weigh on activity
- Australian retail sales forecast to decline 1.1%/m/m in the coming week's update
- Australia's trade balance to remain elevated at A\$8 billion in February
- Housing credit growth likely skewed toward owner occupiers, with investor participation still light

New Zealand's government took center stage in an otherwise quiet week for data. Prime Minister Ardern announced a raft of changes to housing policy, all of which attempt to shift the needle on home ownership. This has been a growing area of policy contention between the RBNZ and the government as house prices soared over the summer due to rate cuts and the prior abandonment of loan-to-value-ratio (LVR) restrictions. The government has announced i) extension of the "bright line" test (effectively a capital gains exemption threshold for investors) from five years to 10 years for existing housing, ii) removal of interest deductibility for investors for existing housing, iii) increased caps on access to first home buyer grants, and iv) NZ\$4bn funding for its home building program. We expect these changes will have a material influence on investors, who historically have accounted for close to 25% of the mortgage debt outstanding (Figure 1).

Figure 1: NZ investor mortgage share

% of total lending



Given the clear power of NZ macroprudential measures in the past, it has been surprising to see strong house prices folded into market rate hike expectations to such an extent, particularly as the RBNZ deploys a sharp two-phase reintroduction of LVR restrictions (this month, and in May). The reforms announced, if introduced, would go significantly further in dampening the longer-run credit impulse that is driven by investors. Rationing investors out, via tax and threshold rules, is unlikely to crowd in the same volume of credit to first home buyers, unless the medium-term price outlook is materially

lower. As the affordability issue itself attests, first home buyers find it more difficult to satisfy loan criteria required to beat out investors at current prices/price expectations, even with LVR restrictions tilted against investors.

Australian activity update

Australia's retail, trade balance, private credit and building approvals data are released in the coming week. The preliminary retail data were weak, with the headline print dropping 1.1%/m/m in February. Prior strength means the annual growth stays elevated, though we expect moderation in 1H21 (Figure 2). The details accompanying the preliminary release are limited, but suggest that the weakness was concentrated in Victoria and Western Australia, where COVID-19 restrictions temporarily interrupted activity. Gains in New South Wales and Queensland were partly offsetting, but not enough to prevent the national aggregate from contracting. Food retailing was weak across all regions, while clothing, footwear, and personal accessory retailing and department stores reported small gains.

Figure 2: Australian retail sales

%oya

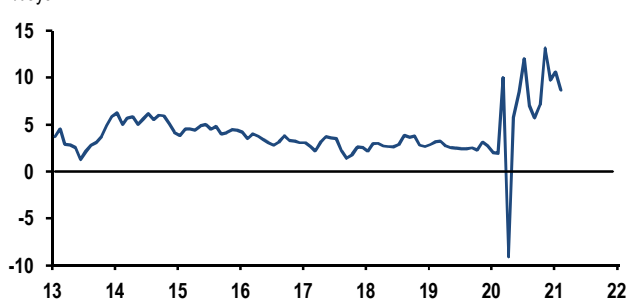


Figure 3: Australian export and import growth

%oya

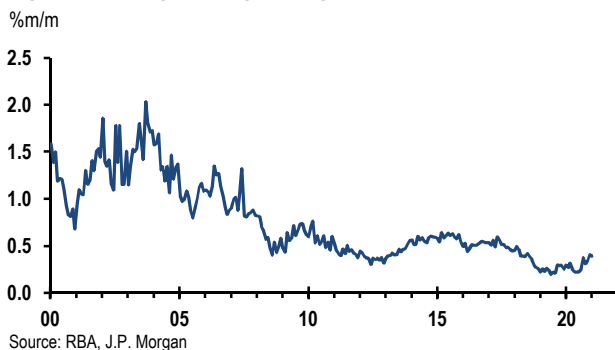


The data in hand suggest Australia's trade surplus remained elevated in February at A\$8 billion, albeit smaller than the prior month's all-time record of A\$10.1 billion. The narrowing of the trade balance owes to both sides of the ledger, with exports likely to move lower on the back of a moderation in key commodity shipments following front-loading of demand

due to the Lunar New Year holiday (Figure 3). The preliminary trade report, while somewhat unreliable, suggests imports spiked 6%/m/m in February with strong gains across capital goods and consumer goods imports. The pickup in these groups builds on strength in 2H20 and speaks to an ongoing economic recovery closely tethered to consumer demand.

Finally, the credit and building approvals data will provide a timely update on the housing market. While house prices have increased sharply since the pandemic started, the credit impulse has been fairly benign. Mortgage growth has ticked higher over the past few months, but at 0.4%/m/m remains toward the lower end of the historical range (Figure 4). The data suggest investor participation remains light, with monthly credit growth averaging 0.1%/m/m since mid-2020. Owner-occupier mortgage growth has been strong, averaging 0.5%/m/m over the same time period, which supports the regional relocation dynamic now possible with more flexible work-from-home arrangements. Building approvals have been volatile through the COVID-19 period, plunging near 20% last month following the expiration of the first iteration of the government's generous HomeBuilder grant. Given the magnitude of January's decline we expect a modest bounce in the coming week's data, though the inherent volatility in the series means our conviction in this forecast is low.

Figure 4: Monthly housing credit growth



Australia

Data releases and forecasts

Week of March 29 – April 2

Wed Mar 31 11:30am	Private sector credit	Nov	Dec	Jan	Feb
	%m/m	0.2	0.2	0.2	<u>0.3</u>

Wed Mar 31 11:30am	Building approvals	Nov	Dec	Jan	Feb
	%m/m	5.0	12.0	-19.0	<u>5.0</u>

Thu Apr 1 11:30am	Retail sales	Nov	Dec	Jan	Feb
	%m/m	7.0	-4.1	0.5	<u>-1.1</u>

Thu Apr 1 11:30am	Trade balance	Nov	Dec	Jan	Feb
	A\$bn	5.1	5.2	10.1	<u>8.0</u>

Review of prior week's data

No data releases of note.

New Zealand

Data releases and forecasts

Week of March 29 – April 2

Thu Apr 1 11:30am	ANZ business confidence	Dec	Jan	Feb	Mar
	Index	110.0	113.8	113.1	-

Review of prior week's data

Trade balance	Dec	Jan	Feb
NZ\$ bn	-0.5	-0.6	0.2

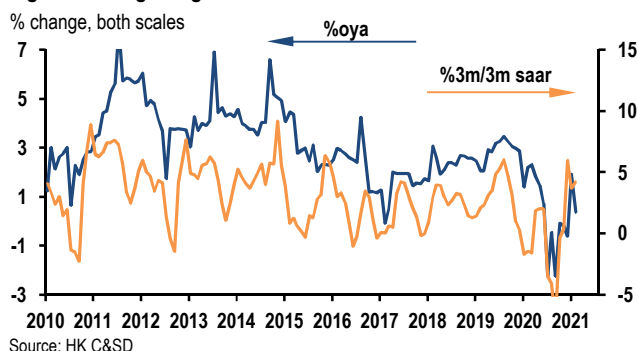
Source: ABS, Stats NZ, J.P. Morgan forecast

Greater China

- **Hong Kong: CPI inflation turned down to 0.4%*oya* in February**
- **Solid trade growth despite LNY seasonality; exports grew 30.4%*oya***
- **Taiwan: Solid sequential trend growth in industrial production in February**
- **Export orders delivered upside surprise again, on broad-based demand strength**

Hong Kong's headline CPI inflation came in below market expectations in February, turning down to +0.4%*oya* from +1.9%*oya* in January (Figure 1). After netting out the effects of the government's one-off relief measures, underlying CPI inflation printed at -0.1%*oya*. The volatility in the Jan-Feb CPI prints is due to the low base in January 2020 resulting from the government's housing cost- and electricity-related subsidies, and in part to LNY seasonality. Taking Jan-Feb together, headline CPI inflation stood at 1.1%*oya*, and underlying CPI inflation slowed to 0.3%*oya*, reflecting still-weak demand.

Figure 1: Hong Kong headline CPI



We expect headline inflation to remain modest in the near term, as the unemployment rate continues to rise and given looming risk of a new wave of the pandemic due to recent catering- and gym-clustered infections. Despite the LNY holiday, pent-up demand during the COVID-19 crisis stayed repressed in February, mirroring households' low incentive to consume. Going forward, more progress in the city's public vaccinations and the rollout of the consumption coupon promised in the financial secretary's budget speech may boost consumption, strengthening demand and supporting inflation in 2021.

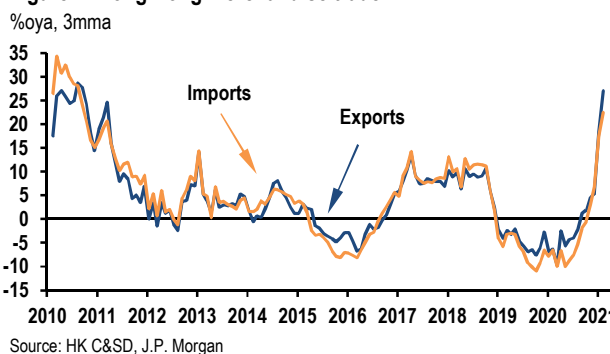
Solid trade growth despite LNY seasonality; exports grew 30.4%*oya*

Solid growth in Hong Kong's trade activity continued in February despite LNY seasonality. Total exports surged

12.0%*m/m*, *sa* and 30.4%*oya*, adding to the 2.4%*m/m*, *sa* gain in January to lift the underlying growth trend to 62.8%*3m/3m*, *sa* (Figure 2). Meanwhile, import growth moderated to 17.6%*oya* in February from the 37.7%*oya* peak in January, on a 2.4%*m/m*, *sa* increase.

Major trading partners in Asia continued to play a prominent role as exports to Asia grew 28.6%*oya* in February, with WFH-related products leading the strong growth momentum. Taking January and February together to account for LNY volatility, total exports jumped 37.6% and imports 28.1% over the same period of last year, with a sizable year-to-date trade deficit of HK\$39.9bn.

Figure 2: Hong Kong merchandise trade



Solid growth in trade activity early in the year start signals encouraging growth momentum and recovery prospects. Hong Kong's vaccination program seems to be well on track though the recent suspension of the BioNTech vaccine due to a batch of defective bottles may bring some uncertainty. Given the expected global economic rebound from 2Q21 onwards, we expect the trade sector will continue to recover, though near-term downside risks remain given the slow domestic recovery and headwinds from the Suez Canal traffic jam.

Taiwan: Solid sequential industrial production growth trend in February

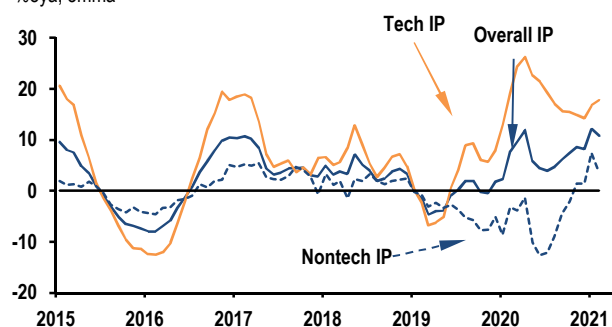
Taiwan's February IP report marked solid growth at 2.96%*oya* (vs. 19.4%*oya* in January) amid LNY-related seasonal drag (Figure 3). IP expanded by 3.9%*m/m*, *sa* in February, following a 0.7% gain in January. Tech production marked steady growth, with tech-related IP rising 0.4%*m/m*, *sa* (vs. 6.0% in January), while non-tech production activity grew 1.4% after dropping 3.1% in January.

Manufacturing inventories grew 0.9%*m/m*, *sa* in January, and the inventory-to-shipments ratio stabilized near the lowest level since 3Q14. Manufacturing inventories seems to be bottoming following the significant decline through 2H20. Lean

inventories, along with a solid external demand trend, suggest the inventory cycle would support manufacturing activity in the near term.

Figure 3: Taiwan IP growth breakdown

%oya, 3mma



Source: J.P. Morgan

On the domestic front, the unemployment rate slipped to 3.73% sa in February. Domestic consumer spending lost some momentum toward the end of 2020 after a notable recovery through the summer months, but seems to have stabilized in 1Q21 as headline retail sales rose 0.6%/m/m, sa in February. We expect the next pickup of external demand to steadily feed through to the domestic economy by supporting the labor market and household income, especially from 2Q21 onwards.

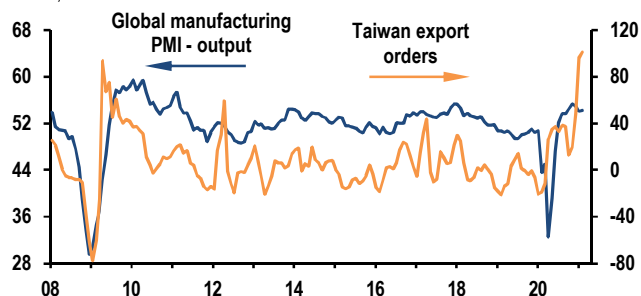
Export orders delivered upside surprise again, with broad-based demand strength

Taiwan's export activity remained strong in 1Q21 as export orders surged 48.5%oya (and 8.5%/m/m, sa) in February after a 49.3%oya gain in January (Figure 4). Tech sector demand further gained momentum after the recent sharp acceleration as tech orders jumped another 6.6%/m/m, sa in February, leaving sequential trend growth at a vigorous 137.5%3m/3m, saar. Recent strong trend growth in tech demand likely reflects solid demand related to 5G communication, HPC, and autos, as well as ongoing WFH-related demand.

Figure 4: Global manufacturing PMI and Taiwan export orders

Index, sa

%3m/3m saar



Source: MOEA, Markit, J.P. Morgan

Demand for non-tech products has generally increased since 3Q20 after staying sluggish in earlier quarters. Non-tech orders grew 7.8%/m/m, sa in February, leaving sequential trend growth at a robust 61.0%3m/3m, saar, reflecting the broadening external demand recovery. In particular, machinery orders rose 3.9%/m/m, sa in February (or 78.9%3m/3m, saar), consistent with a strong ongoing solid global capex recovery.

While strong WFH-related tech demand may ease with the reopening of the major economies, a broad-based boomy global economic recovery, along with sustained, structural strength in demand for tech products should support sustained solid growth in Taiwan's exports. Indeed, with the constructive external demand outlook, Taiwan's tech sector appears to be poised for further significant capex growth in the coming quarters.

China:**Data releases and forecasts**

Week of March 29 – April 2

Wed Mar 31 9:00am	Purchasing managers index Index	Dec	Jan	Feb	Mar
	Overall (NBS)	51.9	51.3	50.6	<u>51.2</u>
	Output	54.2	53.3	51.9	—

Thu Apr 1 9:00am	Purchasing managers index Index	Dec	Jan	Feb	Mar
	Overall (Markit)	53.0	51.5	50.9	<u>51.4</u>
	Output	55.4	52.5	51.9	—

Review of past week's data

No data released.

Hong Kong SAR:**Data releases and forecasts**

Week of March 29 – April 2

Tue Mar 30 4:30pm	Retail sales volume % change	Nov	Dec	Jan	Feb
	%oya	-4.7	-14.0	-14.5	<u>46.3</u>
	%m/m, sa	2.5	-2.9	-1.5	<u>18.0</u>

Review of past week's data**Consumer prices (22 Mar)**

% change

	Dec	Jan	Feb	
%oya	-0.6	1.9	<u>0.6</u>	0.4
%m/m, sa	-0.3	1.2	<u>0.1</u>	-0.3

Merchandise trade (25 Mar)

HK\$ bn

	Dec	Jan	Feb	
Balance	-45.7	-25.2	<u>-19.5</u>	-14.7
Exports	392.2	388.0	<u>301.3</u>	311.1
%oya	11.7	44.0	<u>26.3</u>	30.4
Imports	437.9	413.2	<u>320.8</u>	325.8
%oya	14.1	37.7	<u>15.8</u>	17.6

Taiwan:**Data releases and forecasts**

Week of March 29 – April 2

Thu Apr 1 8:30am	Markit manufacturing PMI Index, sa	Dec	Jan	Feb	Mar
	Overall	59.4	60.2	60.4	<u>60.1</u>
	Output	59.9	58.8	59.2	—

Review of past week's data**Export orders (22 Mar)**

% change

	Dec	Jan	Feb	
%oya	38.3	49.3	<u>42.0</u>	48.5
%m/m, sa	8.1	-1.5	<u>5.1</u>	8.5

Labor market survey (22 Mar)

%

	Dec	Jan	Feb	
Unemployment rate, sa	3.76	3.75	<u>3.74</u>	3.73
Unemployment rate,	3.68	3.66	<u>3.74</u>	3.70

Industrial production (23 Mar)

% change

	Dec	Jan	Feb	
%oya	10.3	19.0	<u>9.2</u>	3.0
%m/m sa	3.6	0.7	<u>2.6</u>	3.9

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

Korea

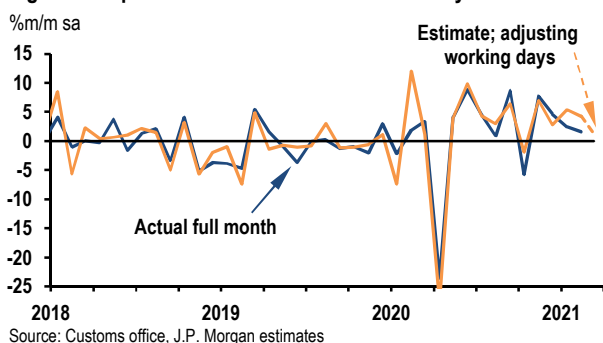
- **Exports to rise further in March, according to first-20-day data**
- **COVID-19 cases stable, and consumer sentiment recovered to pre-pandemic levels**
- **Next week: Robust February rise in IP and retail sales**

High-frequency indicators such as the flash 20-day trade report, credit card usage, and automobile production data suggest that both production and demand firmed in February and that customs exports should rise further in March, pointing to a 3.0%/q, saar GDP growth this quarter. Meanwhile, the National Assembly approved a supplementary budget with extra expenditure worth 14.9 trillion won (0.7% of GDP) this week. Its quarterly impact on GDP growth should be concentrated in 2Q21 as cash handouts will start in early April. We now expect the overall fiscal deficit to be 4.3% of GDP this year, only modestly narrower than in 2020 (JPMc: 4.7%).

Customs exports should continue to grow in March

Customs exports during the first 20 days of March grew 12.5%oya, and if we adjust for trading day differences, full-month exports are likely to expand 16.1%oya following a 9.5% gain in February. If the %oya estimate from the flash report is realized, March exports would be the highest since October 2018. Seasonally adjusted, the flash 20-day report implies a 1.2%/m, sa gain, the fifth consecutive month of growth (Figure 1). As a result, sequential trend exports growth likely surged to around 45%-50%/3m/3m, saar.

Figure 1: Exports - estimate based on first 20 days



Mobility rose amid stable new COVID-19 cases

In recent weeks, new COVID-19 cases have stabilized, averaging 400-450 per day. While current caseloads are modestly higher than the previous peak in early September, it has stabilized after peaking in early January (Figure 2). As a result,

mobility increased somewhat further in March after a sharp recovery in late February, to run about 1.6% below its pre-pandemic baseline. Regarding the vaccination program, 85% of the first-phase priority groups (about 1.3% of the population, front-line medical workers) have received first doses, and the second-phase vaccine rollout to the general population aged 65 and older will start in April. This is broadly in line with our expectation that the vaccine rollout would be efficient if there are no supply bottlenecks, based on surveys indicating relatively high public intentions to get vaccinated in Korea. The government aims to vaccinate about a quarter of the population by June. Reflecting the increased mobility, the high-frequency credit card usage data suggest a rise in service activity (Figure 3); we expect a 1.0%/m, sa services production gain in February (data to be released with IP next week).

Figure 2: Korea COVID-19 and activity trends

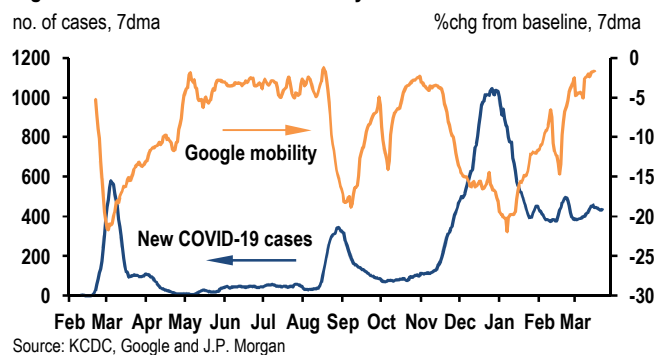
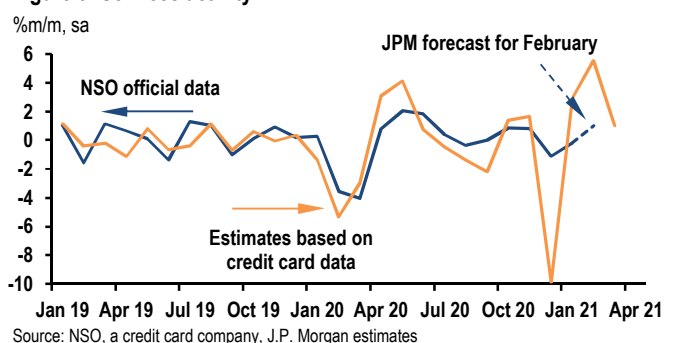


Figure 3: Services activity



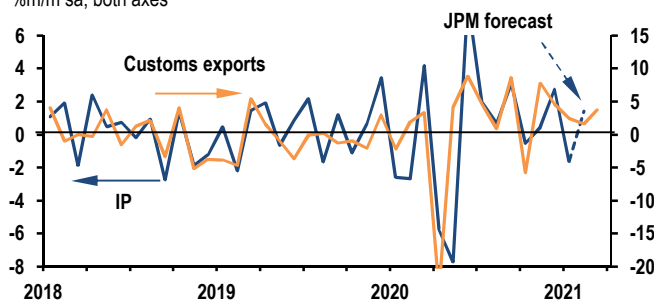
Consumer sentiment rose 3.1pts to 100.5 in March and has now almost fully recovered to pre-pandemic levels. Stabilization in virus cases and the vaccination rollout likely boosted consumer confidence. Strong economic data and imminent fiscal support in the supplementary budget likely contributed to the improvement in sentiment as well. We expect this optimism to support domestic demand in the near term, consistent with our view that consumer spending should recover gradually toward the end of 1Q21. Meanwhile, the surveyed year-ahead inflation expectation rose to 2.1% in March, after hovering around 1.8% in 2H20.

Next week: February rise in IP and retail sales

Industrial production fell 1.6%/m/m, sa in January, under-shooting what customs exports growth had suggested. We expect IP to rebound 1.4% in February (Figure 4), with broad-based growth across automobile and tech production. High-frequency indicators including large-size store sales and credit card usage suggest retail sales jumped 1.7%/m/m, sa, with over-year-ago growth boosted by a low base last year. Along with the expected recovery in services activity, we expect all-industry output should rise in February after a blip in January, consistent with 3.0%/q/q, saar (JPMc) real GDP growth in 1Q21.

Figure 4: IP and customs exports

%m/m sa, both axes



Wed Mar 31 8:00am	Service activity % change	Nov	Dec	Jan	Feb
	%oya	-1.4	-2.2	-2.0	<u>0.1</u>

Wed Mar 31 8:00am	Consumption goods sales % change	Nov	Dec	Jan	Feb
	%oya	-1.3	-2.1	0.0	<u>11.4</u>
	%m/m, sa	-0.3	0.1	1.6	<u>1.7</u>

Thu Apr 1 9:00am	Customs trade US\$ bn, nsa	Dec	Jan	Feb	Mar
	Trade balance	6.7	3.8	2.6	<u>3.4</u>
	Exports	51.3	48.0	44.8	<u>53.6</u>
	Imports	44.6	44.3	42.2	<u>50.2</u>

Thu Apr 1 9:30am	Purchasing Managers Index Index, sa	Dec	Jan	Feb	Mar
	PMI - Manufacturing	52.9	53.2	55.3	<u>54.5</u>

Fri Apr 2 8:00am	Consumer prices % change	Dec	Jan	Feb	Mar
	%oya	0.5	0.6	1.1	<u>1.6</u>
	%m/m, nsa	0.2	0.8	0.5	<u>0.2</u>

Consumer prices should rise on energy and food prices according to the high-frequency indicators, partially offset by a fall in public service prices. Over-year-ago inflation should be flattered by a base effect.

Data releases and forecasts

Week of March 29 – April 2

Wed Mar 31	FKI business survey Index, sa	Dec	Jan	Feb	Mar
	One-month outlook	90.5	102.0	107.2	<u>106.0</u>
	Current conditions	91.1	96.8	106.4	<u>106.5</u>

Wed Mar 31 8:00am	Industrial production % change	Nov	Dec	Jan	Feb
	%oya	0.1	2.5	7.5	<u>-1.3</u>
	%m/m, sa	0.5	2.7	-1.6	<u>1.4</u>

Wed Mar 31 8:00am	Producer shipments and inventories %oya	Nov	Dec	Jan	Feb
	Shipments	1.1	2.7	8.7	<u>0.5</u>
	Inventories	-2.5	0.1	-2.5	<u>-3.5</u>

Wed Mar 31 8:00am	Composite leading indicator 2015=100, sa	Nov	Dec	Jan	Feb
	Index	122.6	123.4	124.2	<u>125.0</u>

Review of past week's data

Producer prices (Mar 24)				
% change	Dec	Jan		Feb
%oya	0.2	0.8	0.9	2.0

Stage of processing price index (Mar 24)				
% change	Dec	Jan		Feb
%oya	-2.6	-4.3	-1.2	0.0

Consumer survey (Mar 26)				
100=neutral reading, nsa				
	Jan	Feb	Mar	
Index	95.4	97.4	98.0	100.5

Source: FKI, NSO, Customs office, Markit, BoK, and J.P. Morgan forecasts

ASEAN

- Vietnam's economic data continue to signal strong growth this year
- Tech leads trend growth in overall exports
- Industrial production fell in February likely due to lunar holiday-related noise
- Consumer price inflation to crawl up through 2021, after bottoming in January

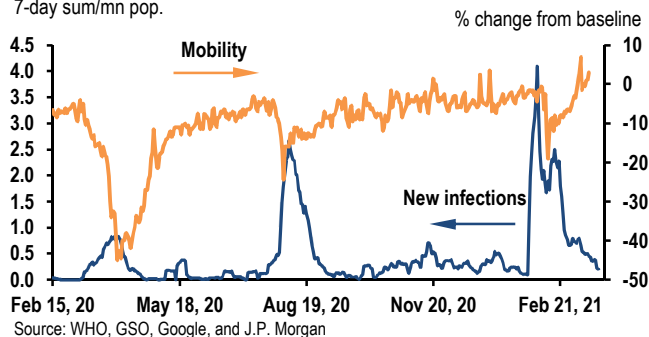
Recent data from Vietnam did not change our long-standing expectation of strong GDP growth in 2021, led by external demand spilling over through the regional supply chain. Service-sector performance should weaken with the occasional resurgence of COVID-19 cases and lingering drags on international travel, yet the pandemic's impact on overall GDP growth should be much more limited than in 1H20. To be sure, after the resurgence in January the number of new cases has declined since mid-February, raising mobility above the baseline level, and customs exports growth continues due to tech sector growth.

COVID-19 cases stabilized to lead a mobility recovery

Vietnam's new COVID-19 infection cases have fallen sharply since mid-February after spiking in late January (Figure 1), and the mid-February lunar holiday season has passed without another resurgence. As new cases stabilized, mobility indices turned up.

Figure 1: Vietnam's new COVID-19 cases and mobility

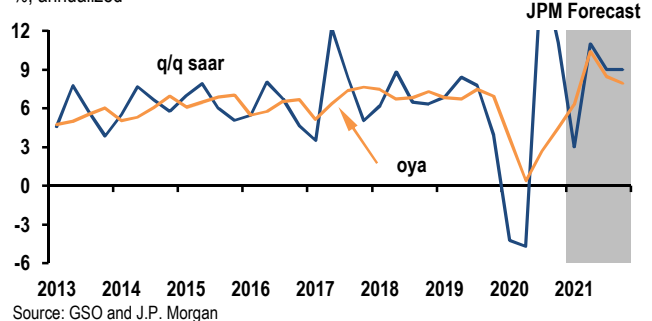
7-day sum/mn pop.



As a result, we expect service-sector GDP growth to slow in 1Q21, yet only modestly after a 27.0%q/q saar surge in 3Q20 and 14.2% growth in 4Q20. Overall real GDP growth should slow temporarily to around a 3% annualized quarterly pace and 6%oya in 1Q (Figure 2), but continue to expect strong annual growth in 2021.

Figure 2: Vietnam real GDP growth

%, annualized



Tech exports growth continues

Customs exports fell 3.8%oya in February, primarily due to a base effect. In February 2020, Vietnam's exports surged due to demand substitution from disruptions in Chinese manufacturing facilities. Seasonally adjusted, customs exports rose 2.1%3m/m, sa in February 2021 following a 1.2% drop in January. In the three-month trend, exports growth accelerated to 9.2%3m/3m, sa after bottoming at 4.0% in December (Figure 3)

Figure 3: Customs exports

%3m/3m sa

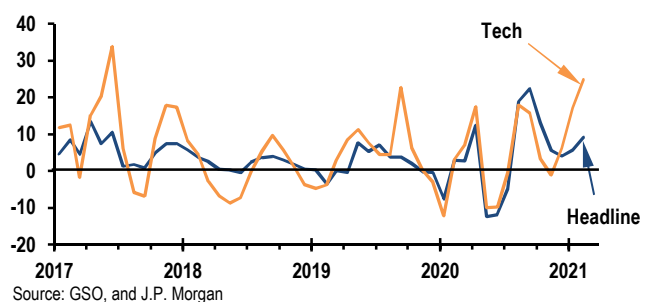
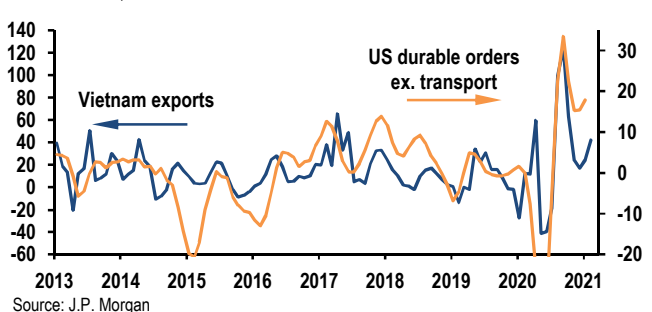


Figure 4: US durable goods orders and Vietnam exports

%3m/3m saar, both scales



By product, tech sector exports rose a vigorous 24.9%3m/3m, sa, leading overall exports trend growth, followed by robust 12.5% growth in machinery exports. By destination, exports to China rose most strongly by 19.0% followed by the EU (13.6%) and the US (9.6%). These details are in line with our

March 26, 2021

long-standing expectation that Vietnam should benefit from the global capex boom and manufacturing sector recovery through goods demands from the regional supply chain (Figure 4).

IP took a breather in February likely due to lunar holiday noise

Industrial production fell 4.2%/m, sa in February after rising 1.1% in December and 1.5% in January. Electronic parts production plunged by 17.4%, after a 19.5% surge in January. Thus in the three-month sequential trend, tech and automobile production growth remains strong. Given that customs exports continue to rise with global demand, we expect IP growth to hold up as well, and that February's production was likely dragged down by a lunar holiday-related loss in workdays. Meanwhile, the manufacturing PMI edged up to 51.6 from 51.3 in January (Figure 5), and the output index recovered to 50.7 from 49.7 in January, consistent with our view that manufacturing production should hold up in 1Q21.

Figure 5: Manufacturing PMI and IP

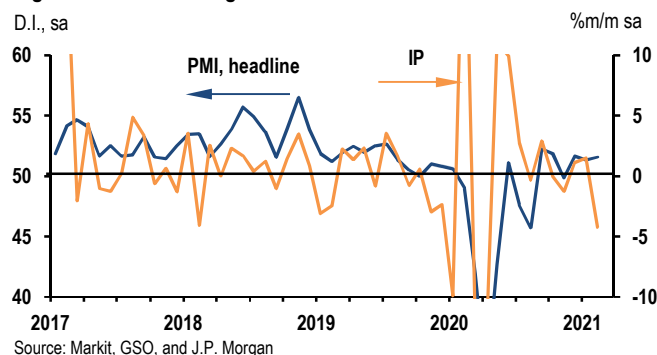
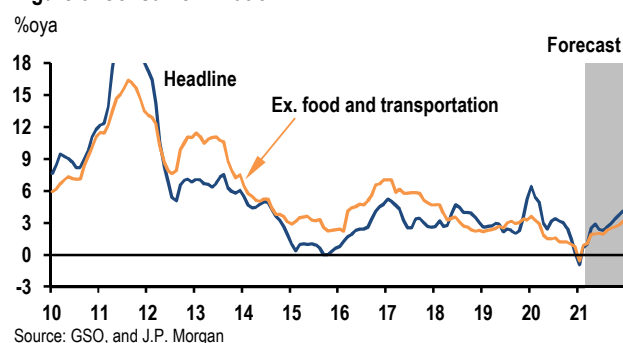


Figure 6: Consumer inflation

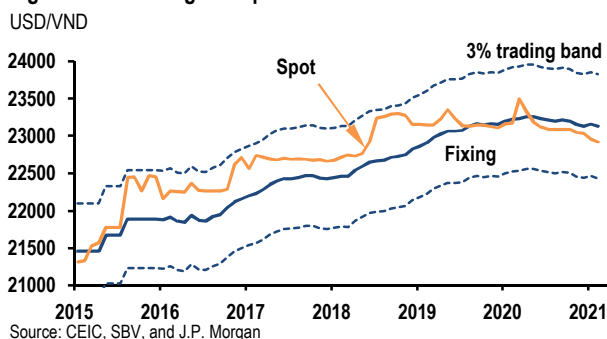


Inflation recovered in February as expected

As we expected, annual consumer price inflation bottomed at -1.0%oya in January and turned up in February, marking 0.7%oya (Figure 6). Seasonally adjusted by J.P. Morgan, consumer prices jumped 0.9%/m, sa in February, led by transportation (+3.8%) and food prices (+1.1%). Besides these

supply-driven increases, core prices also jumped 1.4% after falling 0.9% in January. We expect consumer price inflation to rise gradually toward the 4%oya target by end-2021. Meanwhile, the VND has appreciated against the USD on trend, which we believe is consistent with our robust external demand outlook, an expected sharp acceleration in annual real GDP growth, and subdued inflation in 1H21 (Figure 7).

Figure 7: VND fixing and spot rates



Indonesia

Data releases and forecasts

Week of March 29 – April 2

Consumer prices					
Thu	% change	Dec	Jan	Feb	Mar
Apr 1					
11:00am					
	Total, %oya	1.7	1.6	1.4	<u>1.4</u>
	%m/m, sa	0.3	0.1	0.2	<u>0.2</u>

Review of past week's data

No data releases.

Malaysia

Data releases and forecasts

Week of March 29 – April 2

Merchandise trade					
Mon	US\$ bn, nsa	Nov	Dec	Jan	Feb
Mar 29					
12:00pm					
	Trade balance	4.1	5.1	4.1	<u>3.9</u>
	Exports	20.6	23.6	22.6	<u>22.3</u>
	%oya	5.7	13.3	7.7	<u>8.0</u>
	Imports	16.4	18.5	18.1	<u>18.4</u>
	%oya	-8.0	3.9	2.4	<u>4.0</u>

Review of past week's data

Consumer prices (Mar 24)

% change	Dec	Jan	Feb	
%oya	-1.4	-0.2	<u>-0.1</u>	0.1
%m/m, sa	0.5	1.2	<u>0.2</u>	0.3

Malaysia consumer prices increased 0.3%~~m/m~~, sa, in February, leaving headline CPI at 0.1%~~oya~~ (J.P. Morgan: -0.1%~~oya~~; and consensus: 0.2%). In sequential terms, headline CPI increased to 5.6%~~3m/3m~~, saar. In line with expectations, this is the first positive over-year-ago headline inflation print in Malaysia since February last year. We expect headline inflation to continue rising in over-year ago terms given oil-related base effects. Meanwhile, core prices, which exclude the most volatile fresh food items and administered prices of goods & services, rose 1.2%~~m/m~~, sa. Overall core inflationary pressures remain muted with the over-year-ago figure stable at 0.7%~~oya~~ for the fourth consecutive month.

Philippines:

Data releases and forecasts

Week of March 29 – April 2

No data releases.

Review of past week's data

BSP monetary policy meeting (Mar 25)

% pa

	Jan	Feb	Mar
Reverse repo rate	2.00	2.00	<u>2.00</u>

The BSP left the benchmark policy rate unchanged at 2.0%, in line with expectations (J.P. Morgan and consensus: no change). The interest rates on the overnight deposit and lending facilities were also likewise left unchanged at 1.5% and 2.5%, respectively. We continue to expect BSP to stay on hold through 2021, looking past the transitory supply-side pressures amid a fragile economic recovery.

Singapore:

Data releases and forecasts

Week of March 29 – April 2

No data releases.

Review of past week's data

Consumer prices (Mar 23)

% change

	Dec	Jan	Feb	
%oya	0.0	0.2	<u>0.6</u>	0.7
%m/m, sa	0.4	0.5	<u>0.0</u>	

Given the turn in the economy, we expect prospects for core inflation to move up in sequential terms this year. Despite the cyclical revival, we expect employment to recover with a lag following a decline that has surpassed that of the 2008 crisis. As with output, the bulk of the employment decline has come from the nonmanufacturing sectors. And given the anticipation of a multi-speed recovery across the various service sectors, we expect the employment recovery to be similarly variegated.

Industrial production (Mar 26)

% change

	Dec	Jan	Feb	
%oya	17.1	9.2	<u>38.3</u>	16.4
%m/m, sa	2.2	4.3	<u>4.0</u>	1.6

Thailand:

Data releases and forecasts

Week of March 29 – April 2

Wed Mar 31 2:30pm	Private investment index % change	Nov	Dec	Jan	Feb
	%oya	0.9	6.2	1.3	<u>6.7</u>
	%m/m, sa	2.2	6.2	-2.1	<u>2.1</u>

Wed Mar 31 2:30pm	Private consumption index % change	Nov	Dec	Jan	Feb
	%oya	3.2	-1.2	-7.2	<u>-5.3</u>
	%m/m, sa	1.1	-3.4	-3.7	<u>2.2</u>

Wed Mar 31 2:30pm	Merchandise trade US\$ bn, nsa	Nov	Dec	Jan	Feb
	Trade balance	1.9	2.8	1.9	<u>4.4</u>
	Exports, %oya	-3.1	4.6	-0.3	<u>1.0</u>
	Imports, %oya	-3.3	-0.1	-6.9	<u>9.7</u>

Wed Mar 31 10:30am	Manufacturing production % change	Nov	Dec	Jan	Feb
	%oya	0.6	-2.8	-2.8	<u>0.6</u>
	%m/m, sa	-1.2	1.7	-0.1	<u>---</u>

Review of past week's data

BoT monetary policy meeting (Mar 24)

% pa

	Jan	Feb	Mar
1-day repo	0.50	0.50	<u>0.50</u>

The overall tone of the MPC statement remains broadly unchanged from the February meeting, with the emphasis on the transmission of the policy rate into credit flow, which remains hampered by supply-side constraints amid elevated uncertainty around credit quality. The growth forecast revisions amid soft core inflation reaffirm the view that the BOT will remain on hold through this year and likely through 1H22 as well.

Vietnam:

Data releases and forecasts

Week of March 29 – April 2

No data releases.

Review of past week's data

No data releases.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines; Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts

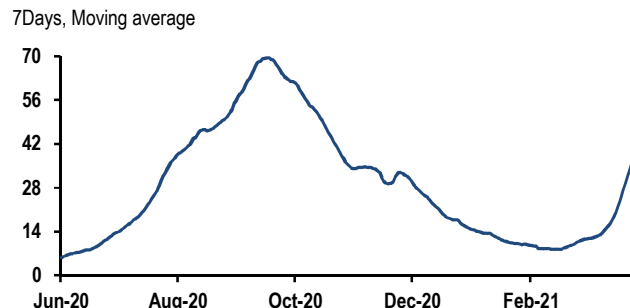
India

- The number of new COVID-19 cases continues to rise sharply
- Majority of cases concentrated in a few states
- Nationally, mobility and activity do not appear to have been impacted materially, until now
- If the number of cases continues to rise sharply, the authorities may be forced to impose lockdowns

Second COVID-19 wave arrives

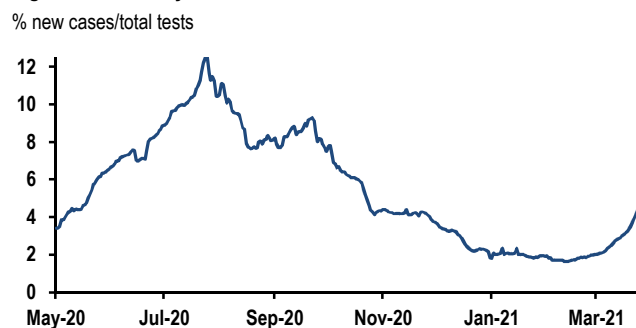
In India, new COVID-19 cases are rising once again. The daily number of new cases has increased from 11,000 in mid-February to more than 50,000 (Figure 1). The effective reproduction rate (R) has increased from 0.9 between November and February to 1.2 in the second week of March and the positivity rate (new cases per 100 tests), which was 1.6% in mid-February, jumped to 4.6% last week, suggesting proliferation of the virus (Figure 2). Recall that the positivity rate was close to 9.0% at the peak of the first wave in September.

Figure 1: New COVID-19 cases per million



Source: Ministry of Health and Family Welfare, J.P. Morgan

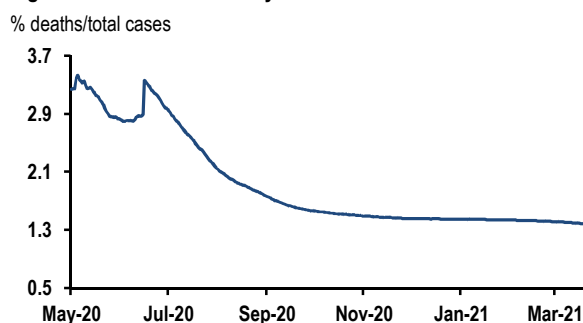
Figure 2: Positivity rate



Source: Ministry of Health and Family Welfare, ICMR

However, the mortality rate continued to fall, reaching 1.37% last week from 1.43% in mid-February and 1.8% at the peak of first wave in September (Figure 3).

Figure 3: COVID-19 mortality rate

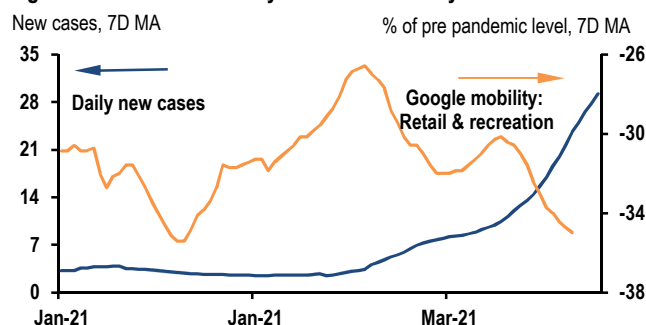


Source: Ministry of Health and Family Welfare, J.P. Morgan

Cases concentrated in a few states

The spike in new cases so far has been concentrated in few states, particularly Maharashtra, which accounts for 60% of the daily new cases. However, new cases have also increased in several other states, though from a low base. Mobility is taking a hit in the states where COVID-19 is proliferating, like Maharashtra and Punjab. For example in Maharashtra, Google retail and recreation mobility peaked in January at 26% below the pre-pandemic level. This has now fallen to 35% below (Figure 4).

Figure 4: Maharashtra - Daily cases and mobility



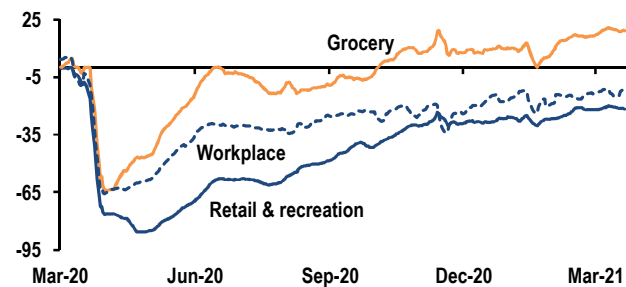
Source: Google mobility, Ministry of Health

Nationally no material impact on mobility up to now

Up to now there does not appear to be a material impact on national mobility and activity. Current Google grocery & pharmacy mobility is 19% above the pre-pandemic level compared to 15% above in mid-February. Similarly, Google retail and recreation mobility currently is 21% below pre-pandemic levels, the same as in mid-February (Figure 5). Furthermore, daily electricity consumption has been strong (Figure 6), implying no deceleration in activity. That said, electricity consumption data often get contaminated with seasonal effects, and are hard to interpret.

Figure 5: India - Google mobility

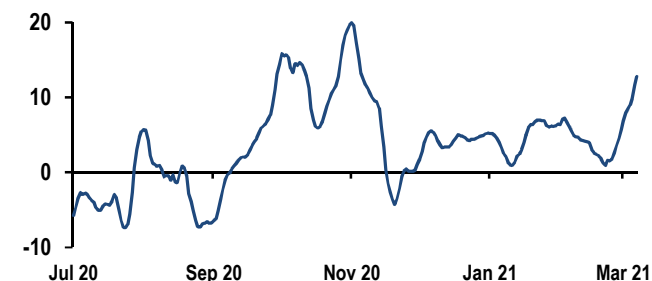
% of pre pandemic level, 7D MA



Source: Google mobility

Figure 6: Electricity consumption

% oya, 7D MA



Source: POSOCO

Review of past week's data

No data released.

Source: Central Statistical Organization, RBI, Ministry of Commerce, IHS-Markit and JP Morgan forecasts

If cases continue to rise the authorities may be forced to impose lockdowns

The authorities have imposed some local restrictions to contain the proliferation of COVID-19, but they seem to be reluctant to impose hard lockdowns due to the economic costs. However, if cases continue to rise sharply and medical infrastructure gets overwhelmed then the authorities may be forced to impose stringent lockdowns. All that said, ramping up the vaccination drive could effectively break the link between mobility/activity and the proliferation of COVID-19 cases.

Our 6.5%/q, saar GDP growth forecast for 2Q21 does not have any lockdown risk built in, hence stringent lockdowns would add downside risk to our outlook.

Data releases and forecasts

Week of March 29 – April 2

Thur		Manufacturing PMI			
1-Apr		Sa			
		Dec	Jan	Feb	Mar
Index		56.4	57.7	57.5	-

Asia focus: Oil trade balances

EM Asia is a net oil importer (only Malaysia has a slight oil trade surplus) and as oil is the lifeblood of the modern economy, the region's demand for oil is inelastic to price changes. Therefore, the oil trade deficits have been proportional to oil prices throughout the region (Figures 1-3). While running oil deficits, China, Taiwan, Korea, and Thailand have had non-oil trade surpluses about two to four times larger than oil deficits and thus maintained overall trade surpluses, regardless of oil price changes (Table 1).

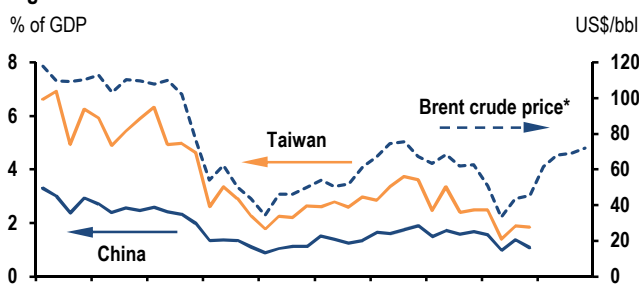
In 2020, a sharp drop in oil prices early in the year persistently dragged down the value of oil imports, so Asia's oil trade deficit shrank, contributing to the gain in overall trade balances. As oil prices are expected to rise in 2021, oil price movements will turn into headwinds this year and widen the region's oil trade deficits. We have extrapolated the [expected rise in global oil prices](#) to Asia's oil trade deficits (Figure 4); the results suggest that oil trade deficits could increase in 2021 to a level comparable to 2018-2019.

Table 1: Oil and non-oil trade balances in EM Asia

	2018	2019	2020	2018	2019	2020
	US\$bn			% of GDP		
China	351	421	534	2.6	3.0	3.7
Non-oil	583	648	710	4.3	4.6	4.9
Oil	-232	-227	-176	-1.7	-1.6	-1.2
Taiwan	49	44	59	8.1	7.1	8.9
Non-oil	70	60	72	11.4	9.7	10.8
Oil	-20	-16	-12	-3.4	-2.6	-1.9
Korea	70	39	45	4.0	2.4	2.8
Non-oil	125	86	78	7.3	5.2	4.8
Oil	-56	-47	-33	-3.2	-2.9	-2.0
Thailand	5	10	24	0.9	1.8	4.8
Non-oil	30	31	41	5.8	5.7	7.9
Oil	-25	-21	-16	-4.9	-3.9	-3.1
India	-189	-162	-93	-7.0	-5.5	-3.6
Non-oil	-95	-75	-33	-3.5	-2.6	-1.3
Oil	-94	-87	-61	-3.5	-3.0	-2.3
Indonesia	-9	-4	22	-0.8	-0.3	2.0
Non-oil	11	12	30	1.1	1.1	2.8
Oil	-20	-15	-8	-1.9	-1.4	-0.8
Philippines	-44	-41	-22	-12.6	-10.8	-6.0
Non-oil	-33	-30	-16	-9.5	-8.0	-4.5
Oil	-11	-10	-5	-3.1	-2.8	-1.5
Malaysia	31	35	44	8.6	9.7	13.1
Non-oil	30	36	44	8.3	10.0	13.0
Oil	1	-1	0	0.3	-0.3	0.1

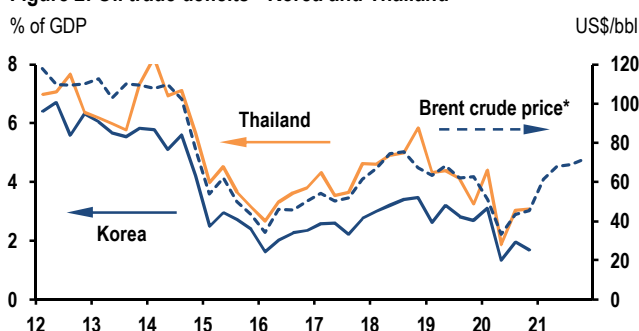
Source: National sources and J.P. Morgan. Please note the long-form nomenclature for China and Taiwan is Mainland China and Taiwan (China).

Figure 1: Oil trade deficits - China and Taiwan



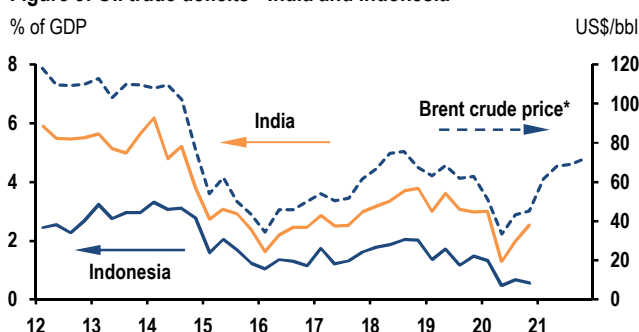
Source: National sources and J.P. Morgan * JPM forecasts for 2021. Please note the long-form nomenclature for China and Taiwan is Mainland China and Taiwan (China).

Figure 2: Oil trade deficits - Korea and Thailand



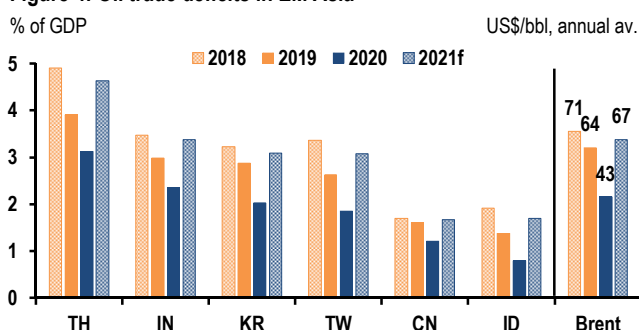
Source: National sources and J.P. Morgan * JPM forecasts for 2021

Figure 3: Oil trade deficits - India and Indonesia



Source: National sources and J.P. Morgan * JPM forecasts for 2021

Figure 4: Oil trade deficits in EM Asia



Source: National sources and J.P. Morgan

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar Dallas Fed manufacturing (10:30am) Mar Fed Governor Waller speaks (11:00am)	30 Mar FHFA HPI (9:00am) Jan S&P/Case-Shiller HPI (9:00am) Jan Consumer confidence (10:00am) Mar <u>98.0</u> Dallas Fed services (10:30am) Mar Fed Vice Chair Quarles speaks (9:00am) New York Fed President Williams speaks (2:30pm)	31 Mar ADP employment (8:15am) Feb Chicago PMI (9:45am) Mar Pending home sales (10:00am) Feb <u>-7.0%</u>	1 Apr Initial claims (8:30am) w/e Mar 27 <u>700,000</u> Manufacturing PMI (9:45am) Mar final <u>59.2</u> ISM manufacturing (10:00am) Mar <u>61.5</u> Construction spending (10:00am) Feb <u>-1.5%</u> Light vehicle sales Mar <u>16.4mn</u> Philadelphia Fed President Harker speaks (1:00pm)	2 Apr Employment (8:30am) Mar <u>650,000</u> Unemployment rate <u>6.0%</u> Average weekly hours <u>34.8</u> Atlanta Fed President Bostic speaks (11:00am) Good Friday, stock market closed
5 Apr Services PMI (9:45am) Mar final ISM services (10:00am) Mar Factory orders (10:00am) Feb	6 Apr JOLTS (10:00am) Feb	7 Apr International trade (8:30am) Feb Consumer credit (3:00pm) Feb Chicago Fed President Evans speaks (9:00am) Dallas Fed President Kaplan speaks (11:00am) FOMC minutes	8 Apr Initial claims (8:30am) w/e Apr 3 Announce 10-year note (r) <u>\$38bn</u> Announce 30-year bond (r) <u>\$24bn</u> Announce 3-year note <u>\$58bn</u> St. Louis Fed President Bullard speaks (11:00am)	9 Apr PPI (8:30am) Mar Wholesale trade (10:00am) Feb
12 Apr Federal budget (2:00pm) Mar Auction 10-year note (r) <u>\$38bn</u> Auction 3-year note <u>\$58bn</u>	13 Apr NFIB survey (6:00am) Mar CPI (8:30am) Mar Auction 30-year bond (r) <u>\$24bn</u> Philadelphia Fed President Harker speaks (12:00pm)	14 Apr Import prices (8:30am) Mar Beige book (2:00pm) Fed Vice Chair Clarida speaks (3:00pm)	15 Apr Initial claims (8:30am) w/e Apr 10 Retail sales (8:30am) Mar Empire State survey (8:30am) Apr Philadelphia Fed manufacturing (8:30am) Apr Industrial production (9:15am) Mar Business inventories (10:00am) Feb NAHB survey (10:00am) Apr TIC data (4:00pm) Feb Announce 20-year bond (r) <u>\$24bn</u> Announce 5-year TIPS <u>\$18bn</u>	16 Apr Housing starts (8:30am) Mar Business leaders survey (8:30am) Apr Consumer sentiment (10:00am) Apr preliminary
19 Apr	20 Apr Philadelphia Fed nonmanufacturing (8:30am) Apr	21 Apr Auction 20-year bond (r) <u>\$24bn</u>	22 Apr Initial claims (8:30am) w/e Apr 17 Existing home sales (10:00am) Mar Leading indicators (10:00am) Mar KC Fed survey (11:00am) Apr Announce 2-year FRN <u>\$28bn</u> Announce 2-year note <u>\$60bn</u> Announce 5-year note <u>\$61bn</u> Announce 7-year note <u>\$62bn</u> Auction 5-year TIPS <u>\$18bn</u>	23 Apr Manufacturing PMI (9:45am) Apr flash Services PMI (9:45am) Apr flash New home sales (10:00am) Mar

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar	30 Mar Euro area: EC cons. Conf. final (11:00am) Mar <u>98.0</u> Germany: CPI 6 states & prelim (2:00pm) Mar <u>0.4% m/m, nsa</u> <u>1.7% oya</u> <u>HICP: 2.2% oya</u> <u>Baden Wuerttemberg (%oya): 1.7</u> <u>Bavaria (%oya): 1.7</u> <u>Brandenburg (%oya): 1.7</u> <u>Hesse (%oya): 1.8</u> <u>North-Rhine West (%oya): 1.8</u> <u>Saxony (%oya): 1.7</u> Import price index (8:00am) Feb France: INSEE cons. conf. (8:45am) Mar Spain: CPI flash (9:00am) Mar <u>0.6% m/m, nsa</u> <u>0.9% oya, nsa</u> HICP flash (9:00am) Mar <u>0.6% oya, nsa</u> Belgium: CPI (8:00am) Mar	31 Mar Euro area: HICP flash (11:00am) Mar <u>1.5% oya, nsa</u> <u>HICP core: 1.2% oya, nsa</u> MFI interest rates (10:00am) Feb Germany: Employment (9:55am) Mar <u>Change m/m, 000s, sa: 20</u> Unemployment (9:55am) Mar <u>Registered: -20</u> <u>Unempl. Rate: 6.0%</u> France: Cons. of mfg goods (8:45am) Feb CPI flash (8:45am) Mar <u>0.8% m/m, nsa</u> <u>1.3% oya, nsa</u> <u>HICP: 1.7% oya</u> PPI (8:45am) Feb Italy: PPI (10:00am) Feb CPI flash (11:00am) Mar <u>0.4% m/m, nsa</u> <u>0.9% oya, nsa</u> <u>HICP: 0.7% oya, nsa</u> Netherlands: CBS bus. conf. (6:30am) Mar	1 Apr Euro area: PMI mfg final (10:00am) Mar <u>62.4</u> Germany: PMI mfg final (9:55am) Mar <u>66.6</u> Retail sales (8:00am) Feb <u>3.0% m/m, sa</u> France: PMI mfg final (9:50am) Mar <u>58.8</u> Italy: PMI mfg final (9:45am) Mar Spain: PMI mfg final (9:15am) Mar	2 Apr France: Monthly budget situation (8:45am) Feb
5 Apr	6 Apr Euro area: Unemployment rate (11:00am) Feb	7 Apr Euro area: PMI serv. & comp (10:00am) Mar Germany: PMI serv. & comp (9:55am) Mar France: PMI serv. & comp (9:50am) Mar Italy: PMI serv. & comp (9:45am) Mar Spain: PMI serv. & comp (9:15am) Mar	8 Apr Euro area: PPI (11:00am) Feb Germany: Mfg orders (8:00am) Feb France: Foreign trade (8:45am) Feb Netherlands: CPI (6:30am) Mar	9 Apr Germany: Foreign trade (8:00am) Feb Industrial production (8:00am) Feb France: Industrial production (8:45am) Feb
12 Apr Euro area: Retail sales (11:00am) Feb	13 Apr Germany: ZEW bus. survey (11:00am) Apr Italy: Industrial production (10:00am) Feb	14 Apr Euro area: Industrial production (11:00am) Feb Spain: CPI final (9:00am) Mar HICP final (9:00am) Mar	15 Apr Germany: CPI final (8:00am) Mar France: CPI final (8:45am) Mar Italy: CPI final (10:00am) Mar	16 Apr Euro area: Car registrations (8:00am) Mar Foreign trade (11:00am) Feb HICP final (11:00am) Mar Italy: Foreign trade (10:00am) Feb
19 Apr Euro area: Balance of Payments (10:00am) Feb Construction output (11:00am) Feb	20 Apr Euro area: ECB bank lending survey (10:00am) 1Q Germany: PPI (8:00am) Mar	21 Apr	22 Apr Euro area: ECB rate announcement (1:45pm) Apr EC cons. Conf. flash (4:00pm) Apr France: INSEE bus. conf. (8:45am) Apr Belgium: BNB cons. conf. (11:00am) Apr	23 Apr Euro area: PMI mfg prelim (10:00am) Apr PMI serv. & comp (10:00am) Apr ECB's survey of prof. forecasters Germany: PMI mfg prelim (9:30am) Apr PMI serv. & comp (9:30am) Apr France: PMI mfg prelim (9:15am) Apr PMI serv. & comp (9:15am) Apr

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Ayako Fujita (81-3) 6736-1172

Yuka Mera (81-3) 6736-1167

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar Summary of Opinions at the Monetary Policy Meeting (Held on March 18, 19)	30 Mar Job offers to applicants ratio (8:30am) Feb <u>1.10</u> Unemployment rate (8:30am) Feb <u>2.9%</u> Total retail sales (8:50am) Feb <u>-2.3 %m/m, sa</u> Auction 2-year note	31 Mar IP prelim <u>0.0 %m/m, sa</u> (8:50am) Feb Housing starts (2:00pm) Feb <u>2.0 %m/m, sa</u>	1 Apr BoJ Tankan (8:50am) 1Q Large mfg DI <u>2</u> Large non-mfg DI <u>-5</u> PMI manufacturing final (9:30am) Feb Auto registrations (2:00pm) Mar Auction 10-year note	2 Apr Auction 3-month bill
5 Apr PMI services final (9:30am) Feb	6 Apr All household spending (8:30am) Feb Employers' survey (8:30am) Feb Auction 30-year note	7 Apr Consumption activity index (2:00pm) Feb	8 Apr Current account (8:50am) Feb Consumer sentiment (2:00pm) Mar Economy watchers' survey (3:00pm) Mar Auction 6-month bill Auction 5-year note	9 Apr Auction 3-month bill
12 Apr Bank lending (8:50am) Mar Corporate goods prices (8:50am) Mar	13 Apr M2 (8:50am) Mar	14 Apr Private machinery orders (8:50am) Feb	15 Apr	16 Apr Reuters Tankan (8:50am) Apr Auction 3-month bill
During the week: CAO private consumption index Mar (12-16 Apr)				
19 Apr Trade balance (8:50am) Mar IP final (1:30pm) Feb Auction 1-year note	20 Apr Tertiary sector activity index (1:30pm) Feb Auction 20-year note	21 Apr BoJ bank loan officers survey (8:50am) 1Q	22 Apr	23 Apr Employers' survey final (8:30am) Feb Nationwide core CPI (8:30am) Mar PMI manufacturing prelim (9:30am) Apr PMI services prelim (9:30am) Apr Auction 3-month bill

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar	30 Mar Payroll employment (8:30am) Jan	31 Mar Monthly GDP (8:30am) Jan <u>0.5%</u> IPPI (8:30am) Feb <u>2.5%</u> Ex energy <u>1.9%</u>	1 Apr Building permits (8:30am) Feb <u>-1.4%</u> Markit manufacturing PMI (9:30am) Mar	2 Apr <i>Good Friday</i> <i>Markets closed</i>
5 Apr	6 Apr	7 Apr International trade (8:30am) Feb Ivey PMI (10:00am) Mar	8 Apr	9 Apr Labor Force Survey (8:30am) Mar
12 Apr BoC Business Outlook Survey/Canadian Survey of Consumer Expectations (10:30am) 1Q	13 Apr	14 Apr	15 Apr Manufacturing sales (8:30am) Feb Existing home sales (9:00am) Mar	16 Apr Wholesale sales (8:30am) Feb International transactions in securities (8:30am) Feb New vehicle sales (8:30am) Feb
19 Apr Housing starts (8:15am) Mar	20 Apr Teranet/National Bank HP Index (8:30am) Mar	21 Apr CPI (8:30am) Mar Bank of Canada Rate announcement/Monetary Policy Report (10:00am) Press Conference to follow (11:15am)	22 Apr New housing price index (8:30am) Mar	23 Apr

Source: Private and public agencies and J.P. Morgan. Further details available upon request. All existing home sales are tentative.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar	30 Mar Argentina: Economic activity Jan <u>-0.5%/m/m; -2.8%oya</u> Current Account 4Q <u>-US\$0.6bn</u> Brazil: IGP-M Mar <u>2.98%/m/m; 31.15%oya</u> Chile: BCC Mar <u>0.5% (on hold)</u>	31 Mar Brazil: Primary budget balance Feb <u>BRL\$26.7bn</u> Chile: Industrial production Jan <u>-1.5%oya</u> Retail sales Jan <u>3.2%oya</u> Unemployment Jan <u>10%</u>	1 Apr Brazil: IP Feb <u>0.4%/m/m; 1.4%oya</u> Chile: Economic activity Feb <u>-1.5%oya</u> IMCE Business Confidence Mar <u>51</u> Peru: CPI Mar <u>0.62%/m/m; 2.36%oya</u>	2 Apr
During the week: Brazil: Central government budget Feb (29-31 Mar)				
5 Apr Argentina: Tax Collections Mar Brazil: FIPE CPI Mar Colombia: CPI Mar Mexico: Remittances Feb IMEF manufacturing index Mar IMEF nonmanufacturing index Mar Uruguay: CPI Mar	6 Apr Colombia: Exports Feb	7 Apr Argentina: Vehicle production Mar Vehicle sales Mar Brazil: IGP-DI Mar Chile: Trade balance Mar Nominal Wage Feb Mexico: GFI Jan	8 Apr Mexico: Auto report Mar Biweekly core CPI Biweekly CPI Core CPI Mar CPI Mar Peru: Reference rate Apr	9 Apr Brazil: IPCA Mar Mexico: IP
During the week: Brazil: Vehicle sales Mar (7-8 Apr) Brazil: Auto production Mar (7-8 Apr) Chile: Vehicle Sales Total Mar (8-13 Apr) Peru: Trade balance Feb (9-13 Apr)				
12 Apr Mexico: ANTAD same-store sales Mar Uruguay: Industrial production Feb	13 Apr Brazil: Retail sales Feb	14 Apr	15 Apr Peru: Economic Activity Feb National Unemployment rate Mar Colombia: IP Feb Retail sales Feb Argentina: CPI Mar	16 Apr
19 Apr Colombia: Trade balance Feb Economic Activity Feb	20 Apr Argentina: Budget balance Mar	21 Apr	22 Apr Argentina: Economic activity Feb Trade balance Mar Mexico: Biweekly core CPI Biweekly CPI Unemployment Mar Paraguay: Monetary Policy Rate Apr	23 Apr Mexico: Retail sales Feb
During the week: Brazil: Tax collections Mar (20-26 Apr)				

Times shown are local. Private and public agencies and J.P. Morgan. Further details available upon request.

UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar United Kingdom: M4 & M4 lending final (9:30am) Feb Net lending to individuals (9:30am) Feb	30 Mar Sweden: Consumer confidence (9:00am) Mar Economic Tendency survey (9:00am) Mar Norway: Retail sales (8:00am) Feb	31 Mar United Kingdom: BoP (7:00am) 4Q Business investment final (7:00am) 4Q Nationwide HPI (7:00am) Mar Real GDP final (7:00am) 4Q	1 Apr United Kingdom: PMI Mfg final (9:30am) Mar <u>Overall: 57.9</u> <u>Output: 55.6</u> BCC quarterly economic survey (12:01am) Sweden: PMI mfg (8:30am) Mar Norway: PMI mfg (10:00am) Mar	2 Apr
5 Apr	6 Apr United Kingdom: New car regs (9:00am) Mar Sweden: Services PMI (8:30am) Mar Norway: PMI Mfg (10:00am) Mar	7 Apr United Kingdom: PMI Services final (9:30am) Mar	8 Apr United Kingdom: RICS HPI (12:01am) Mar PMI Construction (9:30am) Mar Markit jobs report (12:01am) Mar Sweden: Industrial production & orders (9:30am) Feb Household consumption (9:30am) Feb Norway: IP Mfg (8:00am) Feb Housing price statistics (11:00am) Mar	9 Apr United Kingdom: BoE quarterly bulletin (12:00pm) 1Q Halifax HPI (8:30am) Mar Sweden: Budget Balance (9:30am) Mar Norway: CPI (8:00am) Mar PPI (8:00am) Mar
12 Apr Norway: Monthly GDP (8:00am) Feb	13 Apr United Kingdom: Monthly GDP (9:30am) Feb Index of services (7:00am) Feb Industrial production (7:00am) Feb Trade balance (7:00am) Feb BRC retail sales monitor (12:01am) Mar Sweden: PES unemployment (6:00am) Mar	14 Apr United Kingdom: Quarterly productivity (9:30am) 4Q Sweden: CPI (9:30am) Mar	15 Apr United Kingdom: BoE quarterly credit conditions survey (9:30am) 1Q Sweden: Prospera inflation expectations (8:00am) Mar Norway: Trade balance (8:00am) Mar	16 Apr
During the week: CBI industrial trends Apr (18-24 Apr)				
19 Apr United Kingdom: Rightmove HPI (12:01am) Apr	20 Apr United Kingdom: Labor market report (7:00am) Mar Norway: Building statistics (10:00am) Mar	21 Apr United Kingdom: ONS HPI (9:30am) Feb CPI (7:00am) Mar	22 Apr Norway: Business tendency survey (8:00am) 1Q	23 Apr United Kingdom: Gfk cons. conf. (12:01am) Apr Public sector finances (7:00am) Mar Retail sales (7:00am) Mar PMI Mfg (9:30am) Apr PMI Services (9:30am) Apr
During the week: Wage stats Feb (20-29 Apr) CBI distributive trades (24-28 Apr)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar Hungary: Trade balance final (9:00am) Jan <u>EUR830mn</u> Kenya: CBK rate decision Mar <u>On hold: 7.00%</u>	30 Mar Hungary: Unemployment (9:00am) Jan South Africa: Private sector credit (8:00am) Feb Quarterly employment statistics (11:30am) 4Q Budget (2:00pm) Feb	31 Mar Hungary: Average gross wages (9:00am) Jan PPI (9:00am) Feb Poland: CPI prelim (10:00am) Mar <u>2.8%oya</u> Russia: Current account final (4:00pm) 4Q <u>US\$5.5bn</u> Turkey: Foreign trade (10:00am) Feb South Africa: Trade balance (2:00pm) Feb Egypt: GDP 4Q Kenya: CPI Mar <u>6.0%oya</u> Saudi Arabia: SAMA net foreign assets Feb	1 Apr Czech Republic: GDP final (9:00am) 4Q <u>2.4%q/q.saar</u> PMI (9:30am) Mar <u>58.8</u> Hungary: PMI (9:00am) Mar Poland: PMI (9:00am) Mar <u>54.8</u> Russia: Manufacturing PMI (9:00am) Mar <u>52.0</u> GDP (7:00pm) 4Q <u>2.3%q/q.saar</u> Turkey: PMI (10:00am) Mar South Africa: Vehicle sales Mar Barclays PMI (11:00am) Mar	2 Apr
During the week: Kazakhstan: CPI Mar (1-2 Apr)				
5 Apr Romania: Retail sales (9:00am) Feb Turkey: CPI (10:00am) Mar	6 Apr Russia: CPI (7:00pm) Mar	7 Apr Czech Republic: Retail sales (9:00am) Feb Poland: NBP rate decision Apr Nigeria: PMI (8:45am) Feb	8 Apr Czech Republic: Industrial output (9:00am) Feb Trade balance (9:00am) Feb Hungary: Industrial output (9:00am) Feb Trade balance (9:00am) Feb Romania: GDP final (9:00am) 1Q South Africa: Manufacturing output (1:00pm) Feb	9 Apr Hungary: CPI (9:00am) Mar Retail sales (9:00am) Feb Romania: Trade balance (9:00am) Feb Russia: Current account (4:00pm) 1Q Foreign trade (4:00pm) Feb South Africa: Gross reserves (8:00am) Mar Ukraine: CPI (3:00pm) Mar
12 Apr Turkey: Current account (10:00am) Feb Angola: CPI Mar	13 Apr Czech Republic: CPI (9:00am) Mar Current account (10:00am) Feb Romania: CPI (9:00am) Mar Turkey: Industrial output (10:00am) Feb	14 Apr South Africa: Retail sales (1:00pm) Feb Ghana: CPI Mar Nigeria: CPI Mar	15 Apr Poland: CPI (10:00am) Mar Turkey: CBRT rate decision (2:00pm) Apr Israel: CPI (6:30pm) Mar	16 Apr Poland: Core inflation (2:00pm) Mar Russia: PPI (7:00pm) Mar
During the week: Kazakhstan: GDP final 4Q (16-20 Apr) Israel: GDP final 1Q (18 Apr)				
19 Apr Israel: BoI rate decision (4:00pm) Apr	20 Apr Czech Republic: PPI (9:00am) Mar Russia: Retail sales, Unemployment & Investment (7:00pm) Mar	21 Apr Poland: Industrial output (10:00am) Mar South Africa: CPI (10:00am) Mar	22 Apr Poland: Retail sales (10:00am) Mar	23 Apr Russia: CBR rate decision (1:30pm) Apr
During the week: Poland: Budget balance Mar (19-30 Apr)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
27 Mar - 2 Apr	29 March	30 March	31 March	1 April	2 April
		Chile • BCC mtg: no chg Euro area • EC cons conf (Mar, fnl) Japan • Retail sales (Feb) • U-rate (Feb) United States • Case-Shiller HPI (Jan) • CB cons conf (Mar)	Euro area • CPI (Mar) Germany • U-rate (Mar) Japan • IP (Feb) Korea • IP (Feb) United Kingdom • GDP (4Q, fnl) United States • ADP employment (Feb) • Pending home sls (Feb)	Brazil • IP (Feb) Japan • BoJ Tankan (1Q) Korea • Trade balance (Mar) Russia • GDP (4Q) United States • ISM mfg (Mar) • Light vehicle sls (Mar) Global • Mfg PMI (Mar)	Korea • CPI (Mar) United States • Labor mkt report (Mar)
3 - 9 April	5 April	6 April	7 April	8 April	9 April
	United States • Factory orders (Feb) • ISM non-mfg (Mar)	Australia • RBA mtg: no chg Euro area • U-rate (Feb) United Kingdom • New car regs (Mar) United States • JOLTS (Feb)	China • FX reserves (Mar) India • RBI mtg: no chg Japan • CAI (Feb) Poland • NBP mtg: no chg United States • Consumer credit (Feb) • Trade balance (Feb) Global • All-industry PMI (Mar)	Germany • Mfg orders (Feb) Japan • Consumer sent (Mar) • Econ wtchrs srvy (Mar) Mexico • CPI (Mar) Peru • BCRP mtg: no chg Romania • GDP (1Q)	Brazil • CPI (Mar) China • CPI (Mar) Germany • IP (Feb) • Trade balance (Feb) Mexico • IP (Feb) Taiwan • Trade balance (Mar) United States • PPI (Mar) • Wholesale trade (Feb)

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JPMorgan Chase Bank NA

Olya Borichevska (1-212) 834-5398
 olya.e.borichevska@jpmorgan.com

Bennett Parrish
 bennett.parrish@jpmorgan.com

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JPMorgan Chase Bank NA

Olya Borichevska (1-212) 834-5398
 olya.e.borichevska@jpmorgan.com

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Bennett Parrish
 bennett.parrish@jpmorgan.com

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Olya Borichevska (1-212) 834-5398
olya.e.borichevska@jpmorgan.com

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Bennett Parrish

bennett.parrish@jpmorgan.com

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